PROPOSED RETAIL PROJECT
~ THE GRAND PRAIRIE FACTORY OUTLET CENTER ~

FOR

JOHNS HOPKINS UNIVERSITY -- CAREY SCHOOL OF BUSINESS

THE EDWARD ST. JOHN DEPARTMENT OF REAL ESTATE

FINAL PRACTICUM

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DEVELOPMENT OVERVIEW

This Practicum takes a detailed look at a proposed development project, in this case a ground up retail 'factory outlet stores' development, also known as an Outlet Center development ("Outlet Center" or "Outlet"). While the details of the project are molded throughout the following analysis, the proposed Outlet project looks to be 450,000+ square feet of factory outlet retail use, along with ancillary food court uses. The proposed Outlet development for this analysis is proposed for Grand Prairie, a Texas home ruled municipality located between Dallas, TX and Fort Worth, TX.

Topics to be included herein are: market analysis, site selection, project design, land use regulation and approval processes, legal support, financial analysis, investment structure, marketing and lease-up strategy, construction management, and project management. In all, the objective of the following analysis is to lead the proposed Grand Prairie Outlet Development from conception to long-term management.

MARKET ANALYSIS

In an industry that has a wide variety of product type, this analysis will start by defining the parameters of: "What markets produce the best Outlets Centers?" (Note: As in all industries, there are good product examples and bad product examples. This analysis will focus on the good product examples, or the Unities States' best Outlet shopping centers.) These market parameters are understood for the best Outlets Centers and a comparative analysis will show that Grand Prairie is an attractive market for a new ground-up outlet development project.

To do this, the analysis must start from the basic principle of "What is an Outlet?" and then progress more to a detailed analysis that describes market parameters that create a successful Outlet. From this, it will be concluded that Grand Prairie, TX works from a market perspective.

Background Information:

What is an Outlet? Outlets have a longer history than many may know. The term "Outlet," as assumed in this report, originated from "factory outlet store," or literally, the store in the back of factories that sold excess or damaged merchandise as early as the beginning of the 20th Century. But this changed, as in 1937 Anderson-Little (a men's clothier) first sold this merchandise away from the factories (yet still far from urban areas). It was in the 1970's that these "factory outlets" began to become a valuable means to dispose of slightly damaged or older goods. The first Outlet as we know it today opened as an enclosed mall in 1980. From there, the concept took hold, and the Outlet industry saw significant growth in the late 1980's and 1990's. [1]

The Outlet mall product has grown from 118 centers in 1988 to 325 in 1997, before falling off to 260 in 2003 (due to over-building and closures). One of the largest Outlet builders, Chelsea Property Group (now owned by Simon) has seen sales at their centers increase from $383/sf in 2002 to $471/sf in 2006 and over $500/sf in 2007.

The International Council of Shopping Centers further defines Outlets Centers by saying, "This center type consists of manufacturers' and retailers' outlet stores selling brand-name goods at a discount. These centers are typically do not have anchor tenants, although certain brand-name stores serve as "magnet" tenants. The majority of outlet centers are open-air." It goes onto state that outlet centers draw from a 25-75 mile area, range in size from 50,000-400,000 square feet, and range from 10-50 acres.[2] (It should be noted that below it is justified that the successful outlets range on the lager size.)

Defining Market:

In an effort to define what are the parameters for a "successful" Outlet Center, this analysis will look at the top performing Outlet Centers in United States and try to deduct what makes them successful. In an effort to simplify a market, this analysis will focus on 'Population' and 'Average House-hold income.' This is standard demographic information that is easily attainable, and it can be used to create a simple comparative model for different outlet centers. (Note: the population should be taken on a wider range than the typical retail center because outlets, as noted above, are known for drawing their customer base from further away than traditional retailing centers.)

In an effort to identify the top outlet centers in the Unites States, the analysis should look to the Outlet industry leaders: Chelsea Property Group, Prime Retail and Tanger Outlets. Unfortunately, while sales per square foot figures are reported as a portfolio average by the publicly held Chelsea and Tanger, the individual centers' sales figures are not public information. On the other hand, Prime Retail (which does not report sales per square foot numbers) has agreed to assist with this analysis. Prime Retail has provided a generalization of their top 5 Outlet Centers by providing an average range for (1) Sales per square foot and (2) Total gross leasable area. Below are those averages:

	Average Range Sales/SF	Average Range of Size (GLA)
Prime Retail's Top 5 Outlets:	$400-500	425,000sf to 500,000sf

In conclusion, Prime Retail's top Outlet developments are performing on average in the $450/sf range for sales, and they tend to be in the high 400,000 square foot range for gross leasable area.

Next, Prime Retail was able to provide the marketing packages for all of their centers. Of the 20+ marketing packages provided, only the best 5 sets of demographics were analyzed. This was in hopes that it corresponds to their top performing centers for which the sales per square foot and average Outlet size are shown above. From this information, the demographics were analyzed for (1) Population within a 10-Mile, 30-Mile, and 45-Mile radius, and (2) Average house-hold incomes corresponding to those radii. Below is a chart of that information and an average of the information is provided at the bottom of the chart[3]:

		10-Miles	30-Miles	45-Miles
1) **San Marcos, TX**	Population	75,343	673,977	2,501,509
	Avg HH Income	$54,081	$73,529	$72,954
2) **Williamsburg, VA**	Population	87,717	599,578	181,584
	Avg HH Income	$86,966	$66,310	$61,574
3) **Ellenton, FL**	Population	281,835	1,447,922	2,965,620
	Avg HH Income	$60,361	$67,305	$66,510
4) **Pleasant Prairie, WI**	Population	276,948	1,809,620	6,062,192
	Avg HH Income	$78,614	$100,028	$86,684
5) **Orlando, FL**	Population	639,478	2,013,671	2,884,337
	Avg HH Income	$68,019	$68,556	$63,967
AVERAGE OF ALL 5	**Population**	**272,264**	**1,308,954**	**2,399,868**
	Avg HH Income	**$69,608**	**$75,146**	**$70,338**

Now, the question remains: Does Grand Prairie, TX fit the market demographics for a new Outlet development? The chart below compares the average of the Top 5 Prime Outlet Malls to Grand Prairie, TX area demographics[4].

		10-Miles	30-Miles	45-Miles
AVERAGE OF TOP 5	Population	272,264	1,308,954	2,399,868
	Avg HH Income	$69,608	$75,146	$70,338
Grand Prairie, TX	Population	734,007	4,590,329	5,833,558
	Avg HH Income	$75,277	$80,360	$84,237
Grand Prairie Comps	Population	269.6%	350.7%	243.1%
	Avg HH Income	108.1%	106.9%	119.8%

With regards to the above market comparison for the Top 5 Prime Outlet Malls, Grand Prairie has 269.6% the people in a 10-mile radius, 350.7% times the people in a 30-mile radius. With regards to the market Average Household Income for a project in Grand Prairie, Grand Prairie has 108% of the AHI in a 10-mile radius and 119% of the AHI in 45-mile radius. These comparative demographics present clear evidence that Grand Prairie has strong demographics for a new outlet development.

SITE SELECTION

The Market Analysis section above draws the conclusion that Grand Prairie, TX has excellent market demographics – clearly deserving of an Outlet development from a demographic standpoint. The next step in the development process is finding a specific site in the Grand Prairie, TX region. To accomplish this, with assistance of a local real estate broker familiar with the Grand Prairie market area and the retail product, an intersection analysis is completed for all available sites fitting the current outlet industry site standards. The criteria to be identified are: cost per usable acre, land-owner's willingness to make a deal, access, environmental challenges, accommodation of Outlet layout, availability of utilities, land-use challenges, and availability of municipal assistance.

Initially, the broker is informed of the desirable Outlet requirements: First, per the above, a site should accommodate 425,000 to 500,000 square feet of GLA. Secondly, based on the International Council of Shopping Centers, the current outlet centers use 400,000 square feet of outlet and 50 acres of land. Working off of these clearly defined parameters, a 20% FAR is assumed as a coverage. To take this one step further, if the proposed Grand Prairie development needs to accommodate 500,000+/- square feet of retail, then the real estate broker must look for 57+/- acres of contiguous and usable property in a rectangular shape:

$$\frac{500{,}000\ \text{SF}}{20\%\ \text{FAR}} = 2{,}500{,}000\ \text{SF of Land} \times \frac{1\ \text{Acre}}{43{,}560\ \text{SF}} = \textbf{57.39 Acre Needed}$$

With the above information, the real estate broker researches available property in a 10-mile radius around the intersection of two excellent regional highways in Grand Prairie, TX: I-20 and Texas State Highway 360. (Note: The preference is to be on I-20 because of higher traffic counts on average of 176,000 Average Daily Trips (ADT).[5]) The analysis produced seven different site options as exhibited below in "Optional Site Locations"[6], and the sites are charted below in "Alternate Site

Information," which exhibits the development criteria that will be used to make a land purchase decision[7].

IMAGE: Optional Site Locations

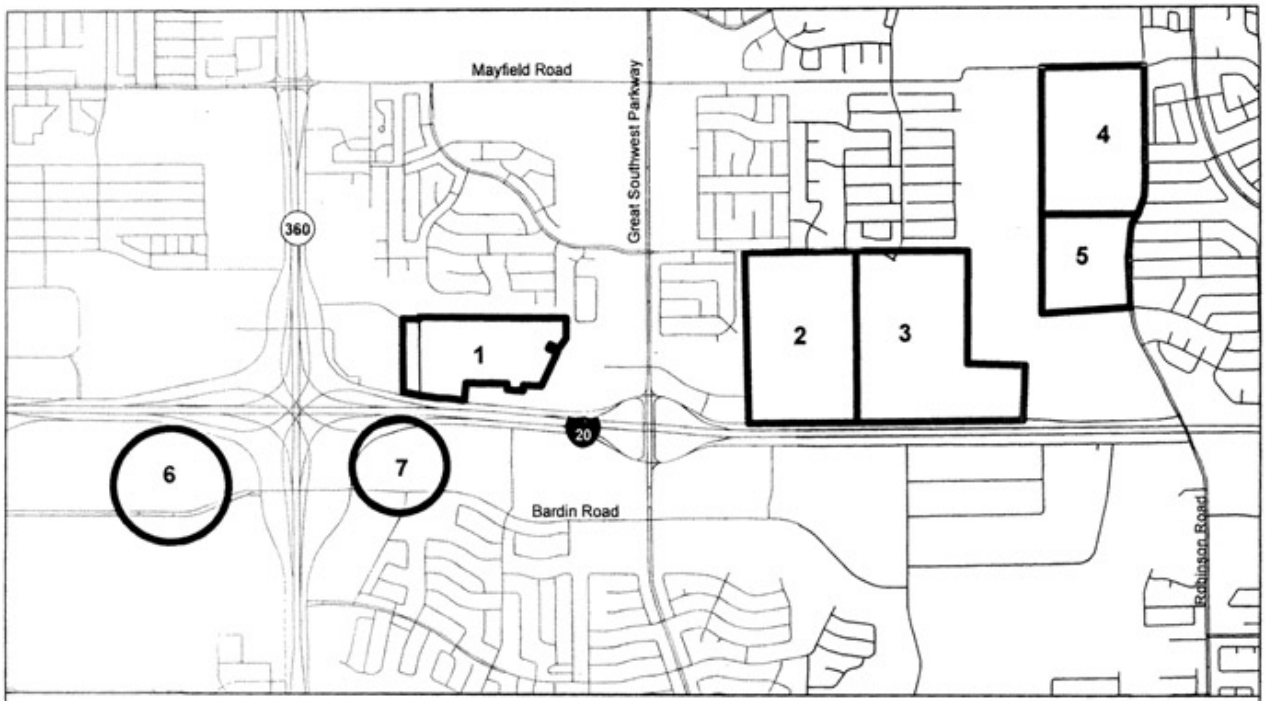


CHART: Alternate Site Information

Site #	Over 50 Acres	Cost per Usable Acre	Access: Scale of 1 to 7	Willing Seller	Wetland Challenges (Easy, Mid, Hard)	Available Utilities	Available Muni. Assist.
1	Yes	$3.00 / SF	1	Yes	Mid	Yes	Yes
2	Yes	N/A	3	No	Hard	Yes	Yes
3	Yes	N/A	6	No	Hard	Yes	Yes
4	Yes	$4.50 / SF	4	Yes	Mid	No	Yes
5	No	$5.25 / SF	5	Yes	Hard	No	Yes
6	Yes	$5.00 / SF	7	Yes	Easy	Yes	No
7	No	$6.75 / SF	2	Yes	Easy	Yes	Yes

In conclusion, Site #1 is the best site based on usable land, cost per usable acre, access, land-owner's willingness to sell, wetland challenges, availability of utilities, and availability of municipal assistance. Site #6 was the second choice, but due to access and land price, Site #1 was the premier choice. Below is an aerial image, of site #1[8].

IMAGE: Site #1 Aerial Image

The Land Deal:

Due to the timing constraints that will be explored in further detail below (including design, land constraints, legal constraints, leasing constraints, etc), the time the sellers allow to get a project approved//permitted and leased plays as large a part in managing risk. In the case of Grand Prairie, a price of $3.00/sf for usable land is agreed upon, and the sellers agree to 15 months as an option period prior to a closing/purchase of the land.

PROJECT DESIGN

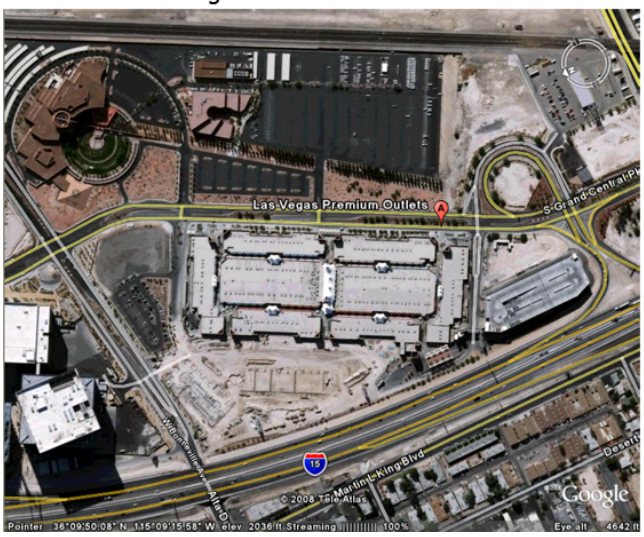
Now that a site has been identified and a land deal completed, project design needs to begin. This section explores the site design challenges, as well as the design consultants needed to complete the permitting and construction process.

Design Challenges:

The first step to identifying the site constraint will be creating a preliminary site plan. This drawing will help in identifying how the building area could be situated on the subject site. To do this, the prototypical "race track" design will be used. The "race track" design is an industry standard in today's outlet world. Below is an example of 2 outlets built by Premium Outlets developers over the past few years[9].

Examples of "Race Track Design"

Las Vegas Premium Outlets

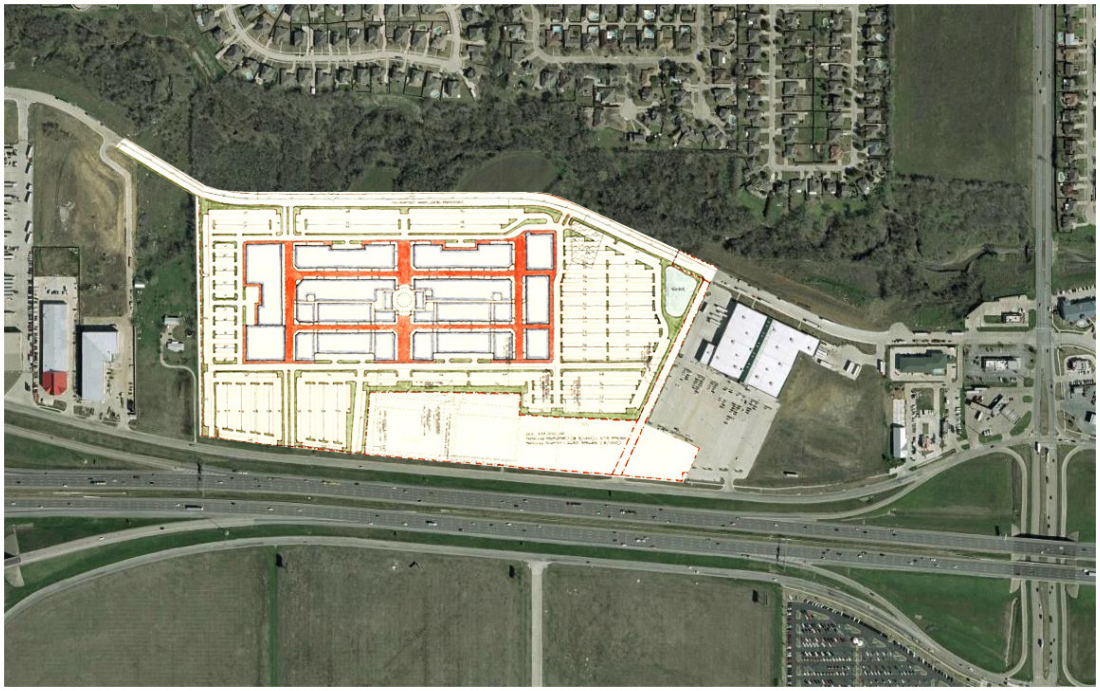


Chicago Premium Outlets

The intention of the "race track" design is to have a shopper enter the "race track," or the pedestrian area where storefronts face each other, and walk entire circle of the race track. The result is that the shopper will walk past every tenant in their loop around the "race track," giving every storefront the same exposure as the next. The result is a lease plan that only has 'good' locations, and thus a plan that is easier to lease.

Using the race-track prototype, an initial concept plan is created. See image below, "Concept Site Layout."[10] This initial plan shows a 420,000 SF plan with a parking ratio of approximately 6:1,000, or 6-spaces per 1,000 SF of leasable area. What this drawing indicates is (1) the race track design fits on the subject property, and (2) that the square footage size of the project can be expanded due to high parking ratios.

IMAGE: Concept Site Layout



The race track design works on this site from a conceptual standpoint, so the design and permitting must move forward. To complete the design and permitting of the project, the below list of the surveys, studies and design work required must be addressed. The list also includes appropriate consultant to complete the necessary design and permitting work:

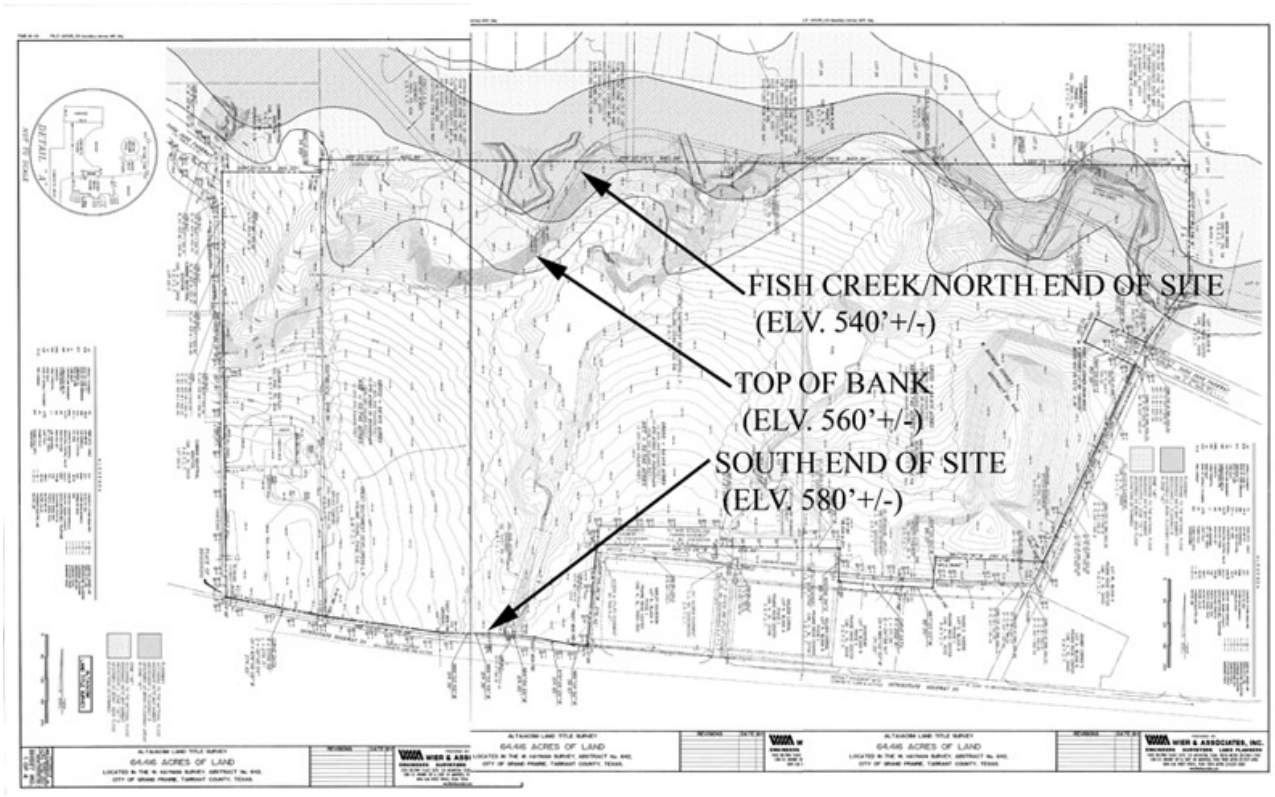
Site Constraints & Permitting Challenges:	**Consultant:**
- ALTA & Topographic Surveys	Civil Engineer
- Phase 1 Environmental Report	Environmental Engineer
- Cultural & Historic	Environmental Engineer
- Zoning & Code Analysis	Civil Engineer
- Utility Study	Civil Engineer
- Traffic Study	Traffic Engineer
- Wetlands Investigation & US Army Corps of Engineers Permitting	Environmental Engineer
- Hydrologic & Hydraulic Study: Waterways & Stream Modeling	Hydrologic Engineer
- Civil Design: Preliminary & Final Site Plan Design	Civil Engineer
- Permitting & Platting Services	Civil Engineer
- Geotechnical Investigation	Geotechnical Engineer
- Architectural Design	Architects
- Mechanical/Electrical/Plumbing Design	MEP Engineer
- Structural Design	Structural Engineer
- Landscape Design	Landscape Architect
- Lighting Design	Lighting Consultant
- Environmental Graphic Program Design	Environmental Graphics Firm

While most of the above are associated with the standard development process, the following are issues that require particular attention: Topographic Survey and Grading, Wetlands Permitting, and Architectural design. These will be discussed in further detail below.

Topographic Survey and Geotechnical Design:

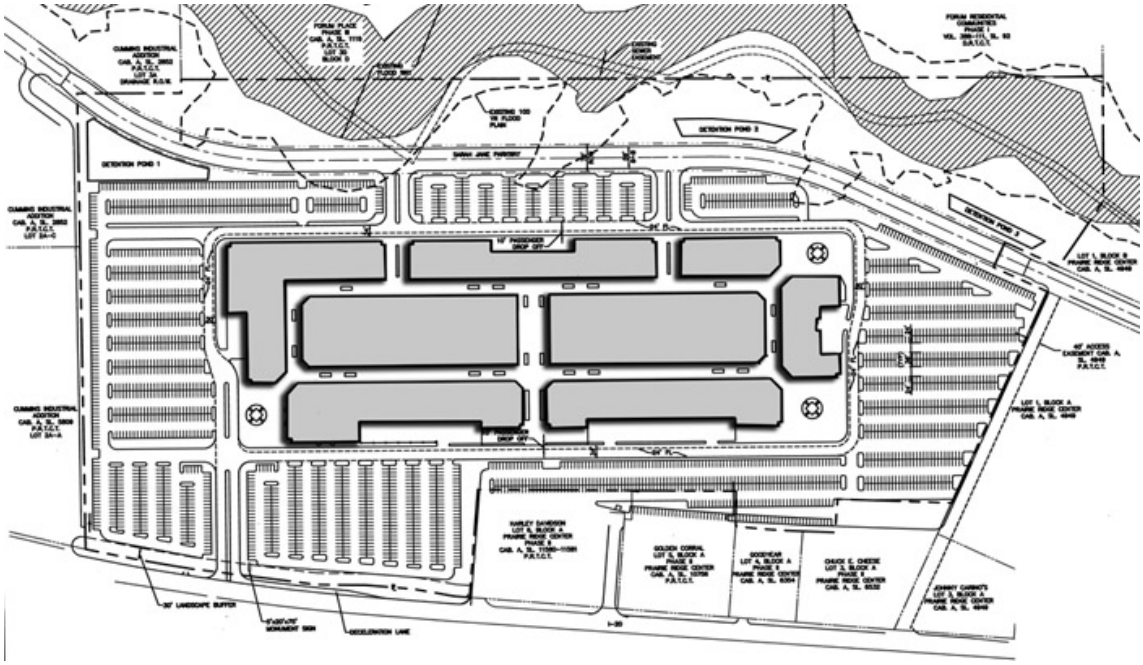
While subject site may appear relatively flat to the naked eye, it actually has significant topography. Generally speaking, the site's elevation decreases about 40 feet from South to North, and about 25 feet from West to East. More specifically, the site drops from about 580 feet above sea level on the South property line to about 540 feet at the North property line. What should be noted is that the site only drops about 20 feet in elevation from 'South End of Site' to 'Top of Bank.' The remaining 20 feet of elevation drop occurs from the 'Top of Bank' to the 'Fish Creek/North End of Site.' (See "Topography Survey" below.[11]) As mentioned above, the proposed Sara Jane Parkway will run at the north side of the site at the 'Top of Bank.'

IMAGE: Topography Survey



With the above ALTA Survey, the civil engineers start detailed site planning design to assure the project can function. What is produced is the below "Final Site Plan."[12] This drawing takes into account the 20 foot grade change from the I-20/Frontage Road to Sara Jane Parkway. To assure that the leasable area is able to change over time as tenants turn over, the finished floor elevations are at one level: 568 feet. In conclusion, while there is a 40 feet grade change from South to North, only a 20 feet grade chance will impact the development area.

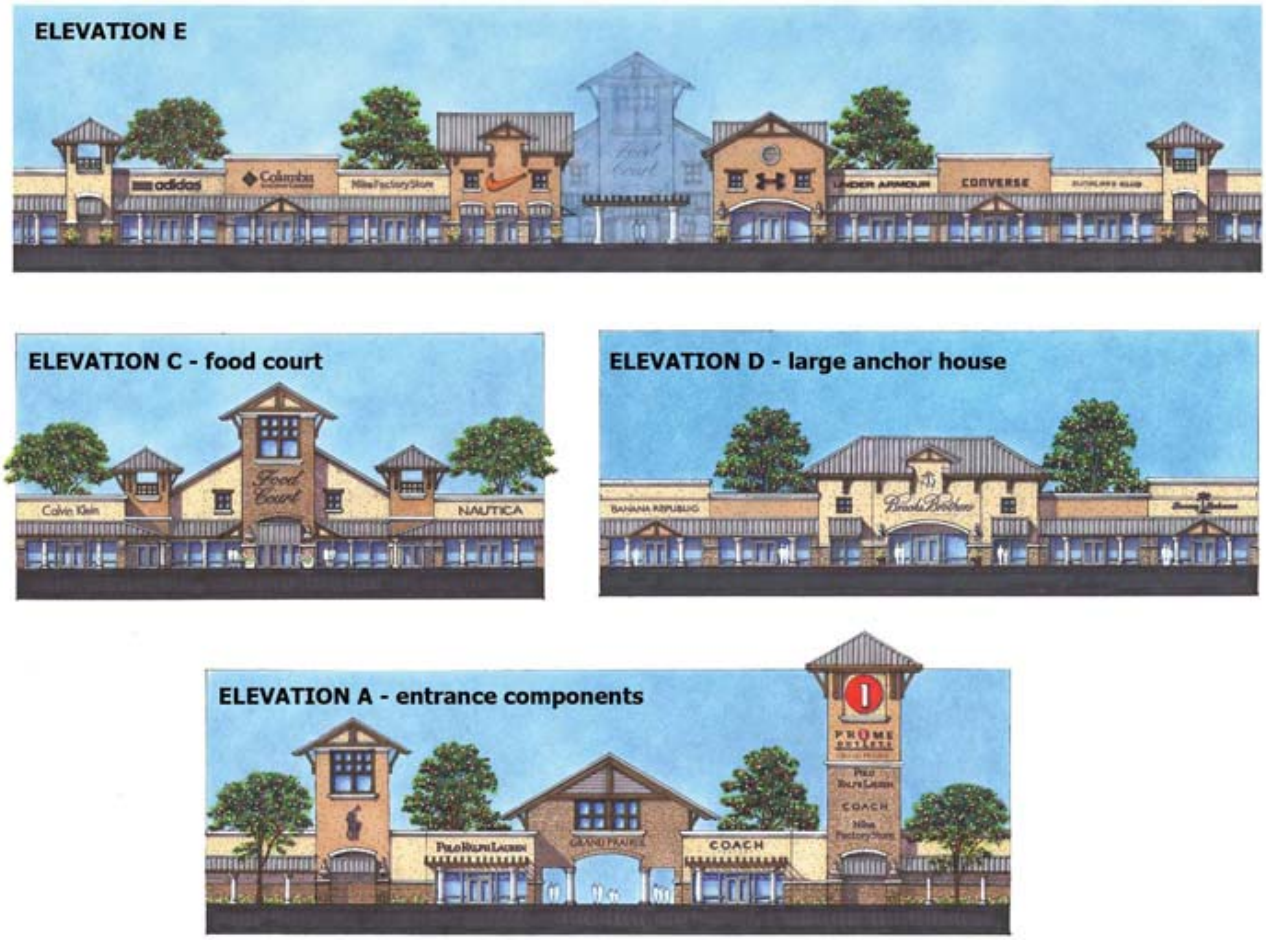
IMAGE: Final Site Plan



Architectural Design:

With a graded site plan, the architectural design will be completed. Using a concrete tilt wall construction with architectural accents, storefronts, and tower and pavilion elements, a building character is created to match the local style in a contemporary fashion. Using the local style should prove to be successful in gaining the support of the City of Grand Prairie, the support of which will be important for the local permitting and local project approval process.

IMAGE: Architectural Styling



Wetland Permitting:

Wetland permitting is a significant challenge with this project site. As in most jurisdictions, the US Army Corps of Engineers ("USACE") regulates any impacts to "navigable water of the United States" (a.k.a. "Wetlands"). Under Section 10 of the Rivers and Harbors act of 1899, the USACE must "regulate all work or structures in or affecting the course, condition or capacity of navigable waters of the United States." And, under Section 404 of the Clean Water Act, the USACE must "regulate the discharge of dredged and fill material into all waters of the United States, including wetlands."[13] Because the proposed development has impacts on Wetlands (as exhibited below), the site must be mapped and all impacts must be permitted by the USACE. Upon further reconnaissance of development site, the Wetlands are mapped and areas calculated. (See below image "ID Locations and Area Calculations."[14]) In total, there are 4.457 acres of Wetlands Area.

IMAGE: ID Locations and Area Calculations

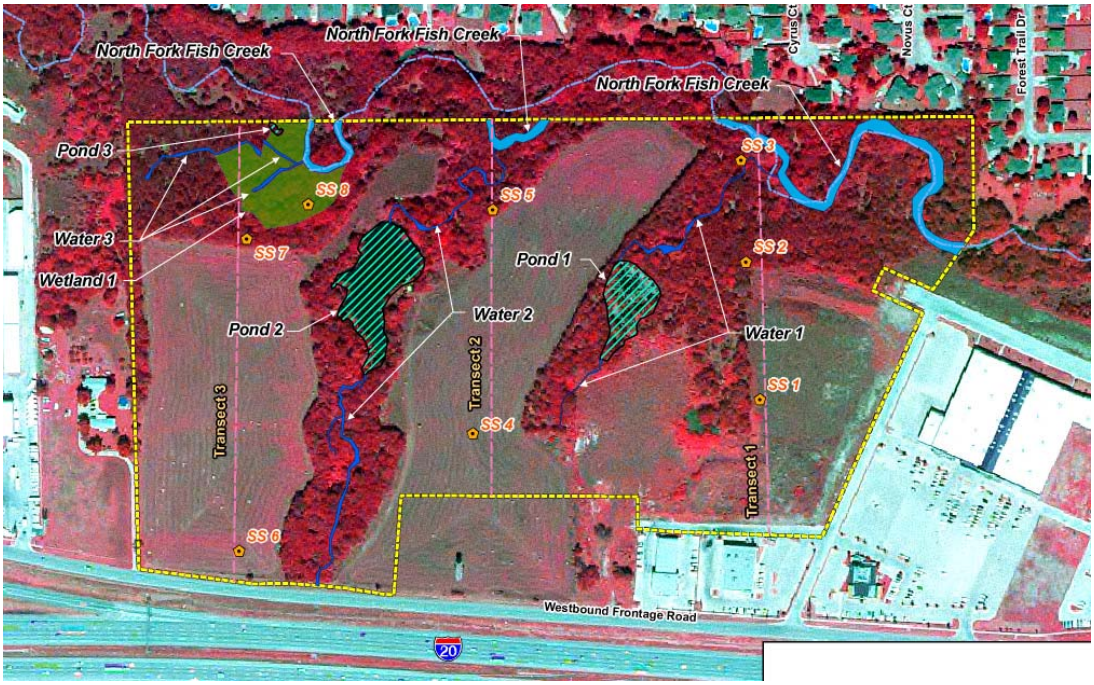
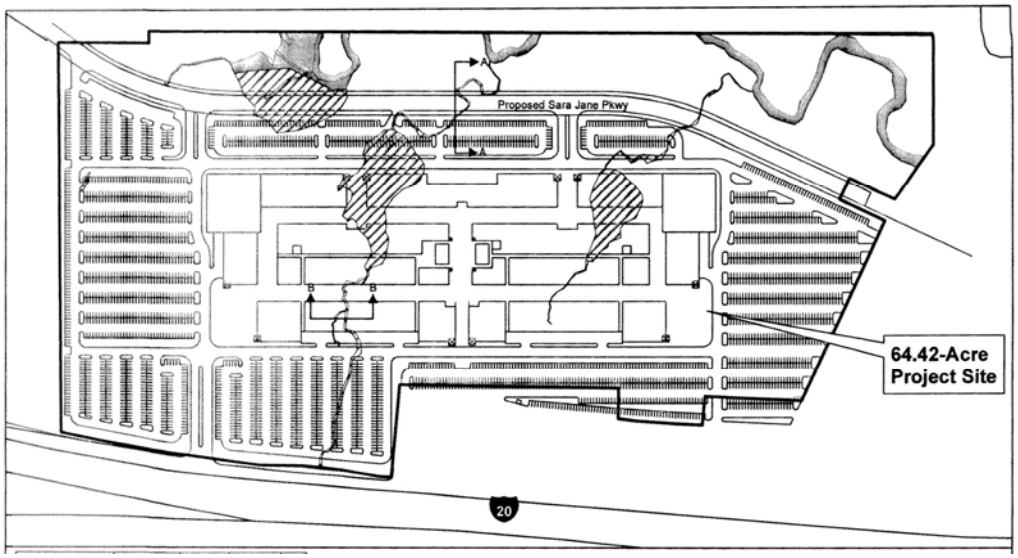


Table 3. Potential Waters of the United States on the Project Tract

Potential Water of the U.S.	Square Feet	Acres
North Fork Fish Creek	43,361	0.996
Water 1	4,259	0.096
Pond 1	26,075	0.599
Water 2	8,655	0.199
Pond 2	48,962	1.124
Water 3	4,036	0.093
Pond 3	683	0.016
Wetland 1	58,115	1.334
Total	**194,146**	**4.457**

The Wetlands area totals as 4.547 acres on the project site, but when the site plan design is laid over the site, it is determined that the actual Wetlands areas that are impacted is 2.9 acres, as seen in the hatched area of the below.[15] [16] As a result of the impacts, the USACE must issue a permit for the proposed changes. The USACE of engineers requires mitigation for all Wetlands impacted, and the mitigation will likely come in the form of Wetlands credits at an off-site location. In this case, a wetlands bank will be used.

IMAGE: Wetland Overlay and Impacts Calculation



Area Name	Surface Area (ac)	Proposed Impacts (ac)	Avoided Areas (ac)	JD (Y/N)
Wetland 1	1.392	0.93	0.462	Y
Water 1	0.096	0.086	0.010	Y
Water 2	0.199	0.192	0.007	Y
Water 3	0.093	0.03	0.063	Y
Pond 1	0.599	0.599	0.000	Y
Pond 2	1.124	1.124	0.000	Y
Pond 3	0.016	0	0.016	Y
North Fork Fish Creek	0.996	0	0.996	Y
Swale	0.0098	0.0098	0.0000	N

A wetlands bank is essentially a large area of preserved critical wetlands habitat that is either existing or created. This area is maintained in purpituity by a curator who will ensure its preservation and management. In exchange for the wetlands maintenance, the USACE will give the preserved wetland area a "wetland bank" status, where the curator is able to "sell" credits, or a percentage of, the entire wetland area. When the curator sell credits, it is not a purchase of real property.

For the outlet project, the corps will likely require a 3:1 to a 5:1 ratio of wetland bank credits to disturbed on-site wetland impacts[17]. Because there are 2.9 acres of disturbed wetlands on site, it will be assumed that approximately 12 credits of a wetland bank will be required. In this case, the South Forks Trinity River Mitigation Bank could be used, and the cost of this bank is estimated at $30,000 per credit for a total of approximately $360,000.[18] (For the construction proforma, $400,000 is used.)

LEGAL

For the development of a project of this magnitude, many legal topics will be covered such as the land purchase agreement / land deal, municipal assistance agreements, title report and review, review of property restrictions, environmental issues, mineral right and surface waivers, permitting assistance, land-use code and variances, and lease documentation. Generally, legal support is used in the documenting of legally binding agreements, and therefore the Land Purchase Agreement and the Municipal Assistance Agreement are the two legally binding agreements/contracts that will be discussed herein.

Land Purchase Agreement:

While the business deal-points of land acquisition take place between the Outlet developer and the land seller, an attorney needs to be involved to legally document the Land Purchase Agreement. Beyond a technical legal writing, there are significant legal issues associated with the legal document, including those that are particular to real estate, as well as those that are particular to the State of Texas and local communities where the documents would be enforced.

In the case of Texas, the topic of Mineral Rights becomes a major factor. Oil has long been a mineral that land-owners in Texas have focused on because of its significant monetary value. In many cases, the mineral value under one's property can carry more value than the actual developable value of the land. In the case of the Dallas / Fort Worth region, natural gas is a major mineral and impacts land values. Interestingly enough, the mineral rights can and are often sold separately from the property (land/dirt). To make this even more difficult to ascertain, the ownership of the mineral rights is not part of the typical title report. In the case of the subject property, attorneys are used in tracking down the ownership of the mineral rights, and luckily the sellers controlled the mineral rights and they are part of the land sale.

Municipal Assistance:

In Texas, retail development is not only an amenity to a community in its ability to supply goods to its residents, but the local communities get a portion of the sales tax generated from retail sales. In the Dallas / Fort Worth area, of a 6% sales tax, 1% goes directly back to the community. For this reason, a local municipality tends to covet new retail development, particularly if it can provide significant retail sales. (Furthermore, in the

case of Outlet development, the customers often come from outside of the local area. The result is that the local municipalities get sales tax revenues that are generated from sales from people outside of the local area.)

As discussed above, an outlet center within the demographic profile of Grand Prairie, TX would be projected to have sales between $400 - $500 per square foot. If sales end up being $400/sf in sales on average, and the center is 450,000sf, then annual sales out of the Outlet are projected to be approximately $180,000,000. With these sales numbers, and a sales tax program where 1% goes directly back to the local municipality, Grand Prairie should benefit in the range of $1,800,000 in increased funds on an annual basis from the operation of an Outlet center. This is attractive to a local municipality.

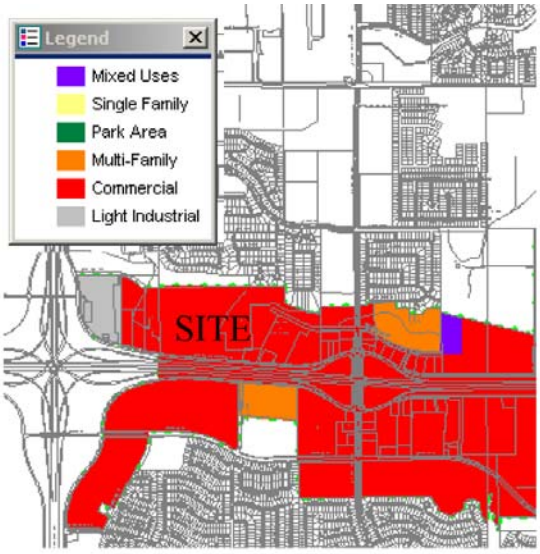
Because of the significant sales tax revenues of the Outlet Center, Grand Prairie has motivation to share in their windfall so that the Outlet does not go to a neighboring municipality instead. In this case Grand Prairie, TX will offer significant cash refunds to the Outlet developer through a Tax Increment Financing (TIF) mechanism. The City of Grand Prairie offered $6,000,000 for local infrastructure improvements, and an additional $10,000,000 spread out over the first 6 years after the Outlet Grand Opening. More specifically, this $10,000,000 will be paid back as such:

Year 1: $5,000,000
Year 2: $1,000,000
Year 3: $1,000,000
Year 4: $1,000,000
Year 5: $1,000,000
Year 6: $1,000,000

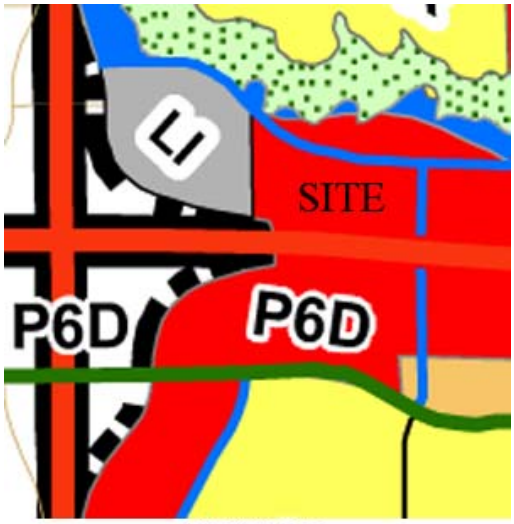
In total, the city of Grand Prairie has offered $16,000,000 to the developer over 6 years, assuming that the Outlet is able to meet certain sales per square foot expectations. In exchange, the city will purchase the Sara Jane Parkway from the developer once completed (land and improvements), as well as $10 million in land and parking lot improvements. The documentation of this municipal assistance agreement would occur in a "Developers' Agreement," and legal assistance will be required to help coordinate a legal document for this municipal assistance package. As noted below, because parts of the parking lots associated with the shopping center will be sold back to the city (and owned by the city), zoning and land-use issues arise as well.

LAND USE

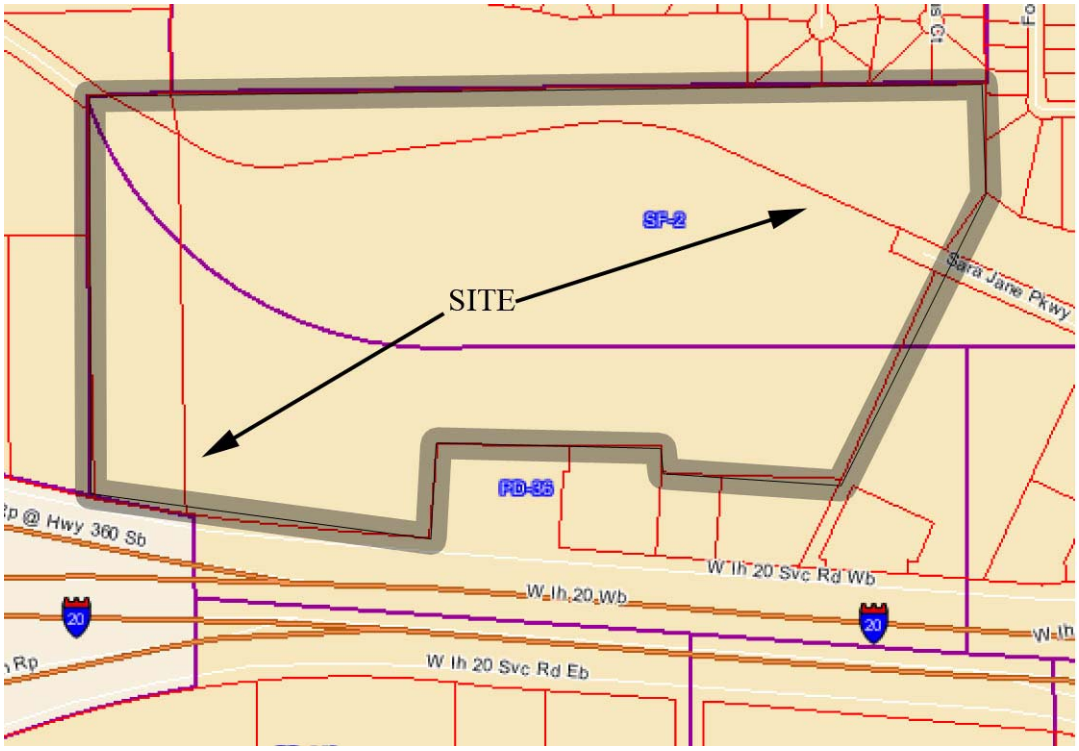
The city of Grand Prairie has two land-use regulation policies that will apply to the site. The first is the Zoning classification, and the second is Overlay District standards. As the drawings show below, the current zoning on the property is SF-2, or Single Family 2, and the Overlay District classifies the "Proposed Land Use" as "Commercial" (see below left).[19] To enable this property to be developed as an outlet use, (1) the zoning will need to be amended from single family to commercial, and (2) a new Planned Development district will need to be adopted that better modifies the Overlay District standards.



Proposed Land Use



ZONING &
PLANNED DEVELOPMENT MAP



Current Site Zoning: SF-2, or Single Family Residential (2 Units per Acre)

The Zoning classification Single Family Residential will need to be amended. Because this property's Future Land Use has already been classified as Commercial, the rezoning of the property should not cause issues. Typically this process will be completed by going through the standard city rezoning process, and should take approximately 45 days, but because the site is within an Overlay District, the rezoning will occur as part of a Planned Development within the Overlay District, a process further described below.

Currently, the Overlay District is more specifically called The Interstate Highway-20 (IH-20) Corridor District. This Overlay District establishes the "land use, zoning, development standards and design criteria along the Corridor that is compatible with a high density, highly traveled urban retail area."[20] Unfortunately, the Overlay District regulations do not perfectly correspond perfectly with the type of retail/commercial development associated with an outlet center, and therefore the Overlay District will need to be amended to work with the standards of an outlet design. To accomplish the changes needed to zoning, design standards, etc, a "Planned Development District" will be created that better works with the outlet concept. The following outlines the major aspects that need to be changed, and these changes will be made through the City Council adoption of a new Planned Development District.[21]

Zoning Standards / Density and Dimensional Requirements:

As discussed above, the Zoning on the property has Single Family 2. As indicated by the "Commercial" designation in the City's "Proposed Land Use" map above, the City of Grand Prairie has intended for this property to be rezoned into a Commercial designation.

Unfortunately, due to the parking lot sale-back to the City of Grand Prairie as part of the municipal assistance package discussed above, the FAR must allow for 500,000sf of retail on approximately 25 acres that remain under the Outlet Ownership. Therefore the FAR must be at least .5-FAR or higher, or at least 1 square foot of building per 2 square feet of property. The dimensional requirement must allow for architectural features that rise up to 45' throughout the project. To accomplish this, the Density and Dimensional requirements will be made to comply with the "Commercial-1" zoning requirements. Commercial-1 requirements have 1 to 1 FAR, and a 50' height limit.[22]

Interior Landscaping:

Again, due to the Municipal Assistance agreement and the sale-back of parking lots, there will be lot-lines that run in the middle of the shopping center's parking lots. The City currently requires landscaping along property lines. Because lot lines run in the middle of the parking lots, the landscaping requirements along lot lines and property lines will not apply for the outlet project area.

Parking:

Additionally due to the Municipal Assistance agreement and the sale-back parking lots, there will be parking on City-owned land that is used for the Outlet center. To meet the City's parking requirements of 5 spaces per 1,000 square feet to building area, the "public parking" located on the sale-back land will be counted as Outlet parking to meet the City's parking requirement.

Signage:

The signage program for an outlet site has different needs than traditional shopping centers. On multiple levels, the signage program will require adjustments to meet these needs. The areas that will be amended include: pylon signage, way-finding signage, and tenant signage. The need for the many layers of signage types are described below, but the result of the numerous signs associated with the outlet center is that the signage zoning rules will need to be amended to allow the multiple types and overall signage area.

The first level of signage is the pylon signs. Due to the longer distances outlet from which shoppers traditionally travel, often these shoppers are not familiar with the area in which the outlet is located. Because of this, outlet locations are easy to find (e.g. visible from major interstate highways) and have pylon signs that are noticeable. This way, shoppers new to the site will be able to find it easily, and this is accomplished through one or multiple pylon signs.

The second level of signage that will be needed is way-finding signage. This is similar to a an enclosed shopping mall, such that the size of the shopping center requires directional signage to get shoppers to their specific destinations, such as the "Neiman Marcus" store or the "Nike" store. These signage elements will be located at various intersections throughout the parking lots, as well as throughout the interior shopping concourse (aka: the "race track").

The third level of signage to be discussed is the tenant signage. Specific tenants typically always have their logo / signage at the storefront areas, similar to those in traditional strip centers, and this is no different in outlet malls. But because the storefronts in the proposed outlet center face inwards towards the race track area, the tenants also prefer to have another sign on the rear of their store, so that it faces the parking lots. This serves more of an advertising panel than a store locator.

Site Plan Approval:

Another important part of the Planned Development District is granting the right to the City Planning Department to approve the Site Plan administratively, as opposed to going through the City Council (public) approval process. Often, a project of this magnitude will go though a series of public meetings, but giving the City Staff the right to approve the project administratively alleviates many of the challenges a project faces if it must be approved by the City Council (e.g. a process with public input). The site plan includes four components:

(1) A site plan design showing parking lots, lighting, curb locations, building locations, square-footage and coverage ratios, etc. The final plans that will be permitted must conform (in general terms) to the approved site plan.

(2) A landscape plan that shows planting locations and quantities.

(3) A signage plan that shows locations, sizes, signage areas, and particular dimensions.

(4) Exterior building elevations, along with signage zones for tenants and project identification.

By the City Council granting the Planning Department the ability to grant site plan approval, the entitlement process will be stream-lined. In this fashion, once the City Planning Department approves the Site Plan, site and building permits will be issued as long as they (1) conform to the "approved" site plan, and (2) the plans meet all development/building/landscaping codes enforced by the City of Grand Prairie

FINANCIAL ANALYSIS

As in every real estate deal, the project must produce a return on investment. As a project moves forward through the entitlement/development process, cost and income information is learned. From this information, a pro-forma must be established to exhibit whether the project cost/investment is supported (or not supported) by the project's return. This section examines and determines the financial assumptions, and from the assumptions a 10-year project pro-forma is created.

Hard Costs:

As a general note, "hard costs" are those budget items that you can actually go and put your hand on, i.e.: land, the building, the parking lots, etc. With all hard costs, the developer can typically have a contractor work with them throughout the design process in order to supply construction costs. In this section, these costs are pretty much set due to contractor estimates and guaranteed costs (such as land). The only cost that will require some estimating (and guessing) is Tenant Allowance. The following outlines the hard costs.

Land Acquisition: This is a fairly simple number to attain. It includes land, brokers' commissions, roll-back taxes, closing costs, and the purchase of an existing billboard. These numbers are essentially calculations and set, except for "roll-back taxes." Roll-back taxes occur when a property is rezoned. Once the rezoning is complete, the property owner must pay the difference between the old zoning real estate tax and the new real estate tax (for commercial) for the previous 5-years. Here, that number is estimated to be $500,000.

Off-Site: These costs include everything off-site, such as bringing all utilities, building road improvements (such as the Sara Jane Parkway), etc.

On-Site: On-Site costs are everything from grading, to parking lots, to sidewalks and pedestrian areas, landscaping, signage, lighting, storm sewer, etc. This will include everything that occurs on-site, except for the physical building costs.

Construction Costs: This category is strictly building costs. This includes all the tilt wall construction, the interior building costs including tenant demising walls, electricity, bathrooms, HVAC and sprinkler systems, etc.

Tenant Allowance: As is typical with most retail commercial real estate, tenants occupying a space typically ask for tenant allowance to build out their space. This is a difficult number to assess, as opposed to a

final construction budget. Not only is this number part of tenant negotiations, but 50% of the leases (and corresponding TA's) will not be finalized until after the construction starts. In order to estimate this number, Prime Retail was able to assist in giving a range on a recent project of 440,000 square feet with two anchor tenants. This range was stated somewhere between 1–1.5 years of a tenant's first year's rent. Assuming an average, the average tenant allowance would be 1.25 years of an average annual lease rent of $30/sf for in-line tenants (see rent section below). Therefore $37.50/sf in tenant allowance is used.

Soft Costs:

Architecture and Engineering: Architecture and engineering costs are assumed to be 5% on hard costs (minus tenant allowance and land). This equates to roughly 5% x $75,000,000 = $3,750,000. This 5% figure is typical for an outlet product based on discussions with Prime Retail. Architectural, structural and MEP get $2.5M, civil and environmental engineers get $1.1M, and miscellaneous consultants get $150,000.

Accounting and Finance Costs: These costs include closing costs on the loan, third party expenses, and broker fees. These figures were estimated with the help of the Prime Retail finance department.

General Conditions, Permits and Fees: General conditions, permit and fees is a long list of items. The City of Grand Prairie has formulas to determine costs associated with site permits, building permits, and several other fees including fire, water and environmental impact-type costs. For purposes of the pro-forma, "site permits" has a place holder of $500,000, and building permits and "other fees" has a place holder of $300,000.

Legal entitlements, contracts and agreements covers all the legal bills associated with this project from local assistance with land purchase agreements, documentation of the municipal assistance agreement, applications for zoning changes, etc. To cover all these costs, $500,000 is put in the budget as a place holder.

Other miscellaneous costs associated with the project include material handling and hauling of site trash ($250,000), on-site trailers during constructions ($200,000), travel during development (including the land acquisition, permitting, and construction periods - $400,000), and finally a miscellaneous cost of $400,000.

Other Project Costs:

Marketing costs are a plugged-in number of $500,000. These funds cover all the marketing needs up until grand opening, and the budgeted amount is close to $1/sf. After grand opening, tenants' marketing funds (as part of their lease) cover any ongoing costs.

Leasing Costs are assumed to be $4/sf for 485,000 square feet, or $1.94M. This covers leasing commissions, legal assistance in lease negotiations, and all other administrative costs associated with leasing the Outlet.

Development fees are left at $0. While it is often customary for developers to used development fees, herein we want look at project return as a pure cash on cash return figure, and not manipulated by a development fee. Instead of using the development fee, project profit is realized as the difference between the total project costs (hard and soft costs) and the present value of cash flows from the project.

A project contingency figure of 7% of hard costs minus land is used.

Income:

As in all commercial real estate projects, revenues are what makes a project work. The question here is: Can this project produce a desirable return on investment? To answer that, we turn to the income side of the equation.

In Outlet center developments, there are different tenants of miscellaneous sizes. While it would be nice to have every tenant and their operating rent structures identified, this is not possible for a project prior to (or at) the start of construction. Furthermore, by the start of construction, millions of dollars have already been spent on approvals and land costs. Because of this, the rent analysis will be based on historical tenant types and their corresponding rental structures.

Types of Tenants: First, the tenant types should be identified as: (1) Typical inline tenants, (2) Minor anchor tenants, (3) Major anchor tenants, and (4) Specialty or kiosk tenants. In each center, the leasing strategy will resolve the quantity of each tenant type based upon a balance of needed income (rent) and "desirable" tenants. Said another way, there is a give-and-take for those tenants that are more desirable with lower rents (e.g. those tenants that "drive shopper traffic"), and the secondary tenants that tend to pay higher rents. Typically, the minor & major anchor tenants are those that shoppers most often seek out, and hence these tenants have leverage with the landlord and can negotiate lower rents.

Rent Background: It should be said here that getting rent figures in the outlet industry is very complicated. Chelsea Property Group and Tanger both report sales per square foot in their 2006 annual reports:

Chelsea's being $471/sf portfolio wide, and Tanger's being $338/sf portfolio wide. Only Chelsea Property Group reported rents per square foot in 2007 of $24.23/sf portfolio wide.

Based on the figures from Chelsea above, this represents an occupancy rate of 5.14% (Occupancy Rate = Rent / Sales per square foot).[23] [24] This is misleading because of two reasons. First, it likely fails to included overage rent, tenants reimbursable, management fees, and other income, and rather only states minimum rent. Secondly, industry talk amongst outlet leasing representatives is outlets centers' tenants' 'occupancy costs' typically range from 8% to 12% (average 10%) for "typical inline tenants" on a triple net rent basis ("NNN"). If the average occupancy cost for an outlet tenant is 10%, then Chelsea's tenants are likely paying closer to 10% of their quoted $417 in sales per square foot, or $41.7/sf in rent.

What does this tell us? While being a bit extractive, it indicates that on the low side occupancy costs are around 5% for Chelsea, and on the high side occupancy costs are 10-12% based on industry talk. Because of this discrepancy, an average of the two occupancy costs would be 7.5%, and this is what is used. Based on the above market analysis that indicates that the Grand Prairie Outlets should do $400/sf or better, average NNN rent figures based on a 7.5% occupancy cost would be around $30.

Confirming Rent Figures: To confirm the above assumptions, representatives at Prime Retail shared some general NNN rents for their tenants in a new Outlet center – assuming sales around $400/sf. In an effort to be helpful, they stated "ball-park" rent figures in correspondence with the tenant type, as well as giving round numbers on what percentage of a new Outlet center each tenant type may occupy, which are shown below:

	PROVIDED RANGES*	
TENANT TYPE	**RENT RANGE (per SF)**	**OCCUPANCY RANGE (%)**
(1) Major Anchor	$6 - $10	8% - 12%
(2) Minor Anchor	$15 - $25	10% - 20%
(3) In-Line Tenants	$25 - $35	65% - 75%

* Provided by Prime Retail

With the above "rent range" and "occupancy range" provided by Prime Retail (see above), the leasing strategy for a 485,000sf Outlet center is created (see chart below). As shown below under "Assumed Average", the NNN rent and occupancy percentage for the Outlet Project are identified. For the (1) major anchor tenants, the high end of the "occupancy" was taken (12%) instead of the average (10%). This is due to the fact that in the

case of major anchor tenants, it was decided that while going with more major anchors would decrease the income/rent potential, but it should help the ease the challenge of leasing the remaining in-line space. (Having two anchor tenants would make leasing the remainder of the center easier.) As for (2) Minor anchors and (3) In-line tenants, a straight average was taken based in the information provided by Prime Retail.

	PROVIDED RANGES*		ASSUMED AVERAGE		GRAND PRAIRIE RENT & INCOME ASSUMPTIONS	
TENANT TYPE	RENT RANGE (per SF)	OCCUPANCY RANGE (%)	NNN RENT	ASSUMED OCCUPANCY	TENANT DISTRIBUTION BASED ON 485,000 SF	TOTAL RENT BASED ON 485,000 SF
(1) Major Anchor	$6 - $10	8% - 12%	$8	12%	58,200 square feet	$465,600
(2) Minor Anchor	$15 - $25	10% - 20%	$20	15%	72,750 square feet	$1,455,000
(3) In-Line Tenants	$25 - $35	65% - 75%	$30	73%	354,050 square feet	$10,621,500
	* Proviede by Prime Retail			100%	485,000 square feet	$12,542,100

Finally, the above chart also goes on to provide (a) square footage dedicated to each tenant type and (b) projection of rental potential for each tenant type. Note that the NNN Rent for an in-line tenant is $30/sf average, but the overall average rent is less than $30/sf. This is less than a 7.5% occupancy cost based on $400+/sf in sales, which (per the section on TA above) presents a conservative estimate.

Other Rent Topics: There are four other topics to identify regarding rent:

(1) Escalation of rents

(2) Overage Rents

(3) Specialty Income / Kiosks

(4) Vacancy:

1. Escalation of Rents: For pro-forma purposes, escalation of rents will follow the Dallas/Fort Worth area historical average of the Consumer Price Index. While the historical average goes back to 1965, the CPI for future increases will only go back 25-years. This CPI is 3.55%.[25] Note: This may not be entirely accurate as leasing will typically pick a set escalation at a whole number between 3-5% for sake of simplicity, but for the pro-forma purposes this CPI figure will be used.
2. Overage Rents: Overage Rent (or percentage rent) can be a significant part of income, but because these rents are based on performance, they are not guaranteed income, and therefore

will not be assumed as part of the pro-forma. The pro-forma should meet return expectations on its own.

3. Specialty Income: Specialty Income, or the rent coming from kiosks, vending machines, etc. will be assumed as a generic $360,000. This is based on 20 kiosks operating at $1,500/month for 12-months of the year. Based on assumptions from Prime Retail, this income number could be twice the estimate used here, so the estimate should be conservative.
4. Vacancy: Based on discussions with Prime Retail, banks typically require a 3% vacancy factor for all centers, and therefore a 3% vacancy factory will be applied to all rental income.

Lease Term: The term of new leases will range between 5-10 years. There is an assumed goal that all leases will be a 10-year term, as the financiers like to have leases established for tenants through their loan-terms (currently assumed to be 10 years). For major and minor anchor tenants, 10-year terms are not difficult (as the anchors typically pay a below average rent). Unfortunately, it is not always possible to have 10-year terms with in-line tenants.

For the pro-forma analysis, it will be assumed that 70% of the in-line tenants have 10-year terms, 20% have 7-year terms, and 10% have 5-year terms. Furthermore, it is also assumed that only 25% of the tenants with leases expiring will actually vacate the space. (So, if 10% of the center comes up for renewal, and only 25% will leave the center, then only 2.5% of the outlet tenant space will become vacant.) This rolling of the lease terms will be reflected in the pro-forma.

At a lease's expiration, the pro-forma will be affected in a few ways: (a) down-time, and (b) new lease rates. For down-time, the space rolling over will be leased prior to the old tenant vacating. The new tenant will have 3 months for build out of their space. This 3-month period will be the down-time. The new lease rate will be the same as the escalated lease rate for the other tenants, a 3.55% annual bump based on Dallas / Fort Worth CPI.

~ Operating Expenses:

CAM, Insurance, Marketing, Etc (a.k.a. "Extras"): In Outlet developments, the trend is for landlord leasing agents to negotiate "triple-net" leases, or NNN lease. NNN specifically refers to a lease structure where

tenants pay their pro-rata share of a shopping center's three 'typical' operational expenses on top of their base rent. Said another way, if a tenant has a NNN lease, then the tenant's rent is net of common area maintenance (CAM), net of real estate taxes, and net insurance – or, triple net. In today's shopping centers, the term NNN lease is commonly expanded beyond CAM, taxes and insurance to include other operations expenses such as marketing, sprinkler fees, trash removal, special assessments, management costs, legal and accounting, etc. The later description of NNN is what is used in this analysis. With this said, all operational costs of the shopping center area are covered under NNN, except capital expenditures such as landscaping improvements, painting of the shopping center, roof repair/replacement, etc.

What a NNN lease does is protect the landlord against sudden changes in operational expenses, and passes this risk onto the tenant. It is clearly a benefit to a landlord to pass on these costs to tenants, and while it is done with much success, the major anchor tenants are often able to negotiate a gross lease deal, or one where they will pay a base rent plus some set dollar amount for these extras typically covered under NNN leases. For the operating pro-forma for the Grand Prairie shopping center, it will be assumed that all tenants have NNN leases, except for any "major" anchor tenants.

The CAM, taxes, insurance, and marketing numbers used in this analysis are obtained from true calculations based on assumed figures. Prime Retail was able to help with the calculation of these figures.

~ For CAM, an $8/year figure was suggested.

~ For Taxes, bases on a Center that will have a value of $125,000,000 (rough project development cost estimate), and Tarrant County Tax Estimator[26], the real estate taxes for the property will be approximately: $1,657,843.75, or $3.42/sf based on 485,000 square feet.

~ For Insurance, Prime Retail suggested using a conservative estimate of $.70/sf, or $339,500 based on 485,000 square feet.

~ Lastly, Marketing money needs to be raised for the shopping center. Prime Retail indicated that while this figure can range from $4.00/sf to $0.00/sf, an average of $2.00/sf would be a safe estimate. All in-line tenant deals will be NNN, so these costs will be reimbursed by the tenant.

For the major anchor tenants, who are assumed to be 12% (or, 58,200sf) or the Outlet, their base rent will be $8, and their extras will be $6, with a gross rent of $14. Because their extras charge of $6 will not cover

the actual extras costs, this difference will be reflected in the pro-forma. Furthermore, because the cost of extras will increase over time, the base extra charge for the center of $14.12 per square foot will be escalated at 3.55% annually, or the Dallas/Fort Worth area CPI over the past 25 years.

~ For miscellaneous capital expenditures, a yearly budget will be assumed. The two items that are the responsibility of the landlord, and hence will be a sole landlord expense are repairs to the roof and parking lots. The pro-forma only looks at 10 years, and roofs and parking lots typically last longer than 10 years, so a complete replacement is not likely in the pro-forma analysis period. Because of this, a general annual repair budget will be assumed. Because this figure is not known to be exact, and because it can change from year to year, a budgeted amount of $50,000 annually for roof repairs and $100,000 for parking lot repairs is assumed for year 1. For the roof and parking lots, the annual expense figure is escalated at an annual rate of 5.46% based on the historical average from the Bureau of Labor Statistics for "Materials and components for construction" since 1947.[27]

Absorption:

While all the above assumptions will be used to determine income and return figures, the viability of getting the shopping center leased – or the absorption of vacant retail space – plays a critical role in its success. To better understand the rate of absorption for the proposed 450K+ square feet of new retail space, this section will examine the current absorption rate of retail space in the target market – and it will be shown that the market is one of the strongest submarkets in the Dallas/Fort Worth area. But, this section will also attempt to describe how the outlet product varies from other types of retail products.

The Dallas/Fort Worth Retail Market: The Dallas/Fort Worth retail market is one of the largest in the country. Due to its large size, the Dallas/Fort Worth retail market has many different submarkets as seen below in the chart. In a report completed for the 1st quarter of 2008, CBRE presented market conditions for the different submarkets of Dallas/Fort Worth. The proposed outlet center in Grand Prairie is located at the southern end of "West Dallas" and the eastern side of "Southwest Dallas," so these would be the most applicable retail markets when comparing to the proposed outlet location. Of a total net absorption of 592,000sf of retail space for the 1st quarter of 2008 to the entire Dallas-Ft.Worth Market, the "West Dallas" area had 93,363sf of absorption, and the "Southwest Dallas" area has 310,994sf of absorption, making these sub-areas – the most

applicable to the outlet project – account for 504,000sf of the total 592,000sf of absorption for the entire Dallas/Fort Worth area. This clearly illustrates that this market area is strong.[28]

Federal Reserve Outlook: The Federal Reserve publishes the "Beige Book" on a regular basis describing the "anecdotal information on current economic conditions in its District through reports from Bank and Branch directors and interviews with key business contacts, economists, market experts, and other sources."[29] Their statements for June-July 2008 for the Eleventh District –Dallas– read that "Retail sales were mixed—with discount stores reporting stronger sales and other retailers reporting flat to slightly declining sales."[30] This reinforces the notion that the Dallas/Fort Worth area is still strong for discounters, a retail classification that Outlet centers fit into.

The Outlet Industry: In the summer of 2008, Cushman Wakefield Valuation Advisory Services published a detailed document named the "Outlet Center Industry Overview."[31] This report has statements developed in consideration of the current downturn of United States economy such as:

> "We expect outlet centers to outperform during an economic downturn as brand conscious consumers trade down from full price retail formats."

> "While we expect that older, ill-conceived (outlet) centers will continue to close, the demand for new centers, particularly premium outlet centers, is growing."

> "On balance, we adopt an optimistic outlook for the outlet center industry. We anticipate that outlet centers will outperform their conventional peers during an economic downturn".

Summary: While the current economic outlook of the United States appears a bit bleak, based on the strong retail absorption in the Dallas/Fort Worth market, the strength of discount retailing, and the positive outlook of the Outlet Industry, it can be concluded that the Grand Prairie Outlet project has a high probability of meeting expectations and being a retail success story.

INVESTMENT STRUCTURE

For this section, the project costs are estimated to be $120,000,000. As seen on the "Project Costs/Construction Pro-forma" included in the appendix section herein, the project costs are projected to be $118.28M before pre-construction loan interest carry, and $121,090,000 including the interest carry. To simplify this section, a $120,000,000+/- project cost is used.

With a changing financial market environment that has been seen thus far in 2008, it will be assumed that lending standards for this project will be more stringent than what has been seen over past 5 years. Instead of having a 10% equity requirement (or less in some cases) as seen in the early part of the decade, it will be assumed that the equity requirement will be closer to 25%-30% in 2008. In-so-much, for the $120,000,000+/- project costs being proposed, it is assumed that $30,000,000 in equity (or 25%) will be required, as opposed to an estimated $12,000,000+/- that would have been required in the not-so-distant past.

Because coming up with $30,000,000+/- (25% equity) can be challenging, and to limit the cash outlay of the developer, a multiple layered financing structure will is proposed. In all, there will be five levels of financial participation: (1) Developer Equity, (2) Land Financing, (3) an Equity Investor, (4) Construction Loan Financing, and finally (5) the Permanent Loan.

~ Developer Equity:

The first level of investment comes from the developer, who in this case is likely to spend $3,000,000+/- in soft costs in from project inception (market analysis stage) through the project permitting. For purposes here, the developer is considered the "sweat" equity investor, even though the developer is putting up significant cash. Because the developer puts up the first tranche of money, and the most "at risk" money, this investor should receive the highest return on investment.

~ Land Financing:

The second level of money will be the land financing. The land financier will also require a 25% equity investment prior to lending. In this situation, the "land" investment includes land closing costs and entitlement costs, and but because the developer would have spent $3M+/- on entitlement costs prior to the land closing, the land financier will lend up to $9,000,000+/-, or 75% of $12,00,000. It is assumed that the rate on this "land loan" is 6.5% interest only, and the term is 1-yr with an option to extend for an additional year.

With the land financing ($9,000,000), the property can be purchased. In this structure, the land ownership will remain with the developer entity, and a first mortgage will be held by the land financier – until such time when the construction loan is in place. With this land financing, the project takes one step closer to development. The developer and land financier will be responsible for the first 10% ($12,000,000) of the project financing.

Level of Investment For First $12,000,000	Cash Outlay	% of Total Investment	Annual Return	Ownership Stake
Developer Equity	$ 3,000,000	25%	0.00%	100%
Land Financing	$ 9,000,000	75%	6.50%	0%

~ Equity Investor and Construction Loan Financing:

The third and forth levels of money are the (3) equity investor and the (4) construction loan financing. While these are decisive groups of funding, they will both require similar milestones to be met, and therefore they are discussed together herein. These two to project funding sources will be responsible for the remaining $108,000,000+/- (90%) of the $120,000,000+/- project cost – as discussed above, the other $12,000,000 (10%) of the total project costs are provided by the developer equity and land financing.

Equity Investor: Again, the typical 25% equity requirement from financial institutions in today's lending markets apply here – as was required in the first $12,000,000 in funding noted above. Therefore, the equity investor will lend 25% of the remaining $108,000,000, or $27,000,000. When you total the Developer Equity investment made above ($3,000,000), plus the Equity Investor described here ($27,000,000), a total equity invested in the project is raised to $30,000,000 – or 25% of the $120,000,000 project cost.

Construction Loan Financing: In balance with the above, the current investment is (1) $3,000,000 Developer Equity, (2) $9,000,000 Land Financing, and (3) $27,000,000 Equity Investor, totalling $39,000,000 – this leaves $81,000,000 of the $120,000,000 in project costs to be funded. Because there is a total of $27,000,000 in equity money accounted for (or 25% of the $120,000,000 project cost), the missing $81,000,000 will be funded by a construction loan financing. (Described in the chart below)

~ Investment Risk and Return:

Now we will clarify the level of investment risk and timing. The developer equity and land loan discussed above are responsible for the initial $12,000,000+/- of the project funding. While this represents a significant investment on the early portion of the project, there is an underlying value in the physical land (dirt) and the entitlements (project approvals) that these investors can fall back on. And similar to the tangible asset of land, a stabilized income-producing outlet project also has value. But unlike the tangible asset that land represents day one, a building does not have value until it has a stabilized operating income from rent-paying tenants. To minimize the $108,000,000 investment to be made by the equity investor and construction loan financier, these financiers will look for 50% of the project to have signed leases prior to lending. In this fashion, the equity Investor and the construction loan financier go hand-in-hand with the timing of their investment.

While similar in timing of investment, the equity investor and the construction loan financier have very different roles in their requirements for return on investment. A construction loan financier is typically made by a traditional lending institution, and their investment will hold the first mortgage on the property. In the event of a loan default, the first $81,000,000 of property value will revert to the construction loan financier – the financier's issued debt. With this first mortgage, the risk to the construction loan financier will be minimized due to them having "something" to fall back on. On the other hand, the equity investor is at risk to loose their entire cash investment, as their investment is subordinate to the construction loan financier's first mortgage. (In some cases, the equity investor may be additionally personally liable for any losses, though this is not typical and is not assumed for this investment.) Because of this subordinate financing position, the equity investor carries a higher level of risk than the construction loan financier.

The different levels of risk that are taken on by the construction loan financier and the equity investor (previously noted) equate to different levels of financial reward. In this case, the construction loan financier will lend at an interest rate of around 6.5%, interest only, which is payable throughout the loan term – in this case the construction period. Alternatively, the equity investor will not be given any return until the project is complete with construction and producing a rental income stream. At this time, the equity investor will receive a the first 10% return on equity, as well as take a 50% ownership in the project.

~ Summary of Financing Arrangements throughout Construction

The above outlines the four different levels of financial participation. To help clarify, the chart (below) further outlines this structure. As exhibited, the developer invests a total of 2.5% of the total project investment but will retain 50% of the return on investment. The intent of this is for the developer to maximize return on investment.

Level of Investment (Financial Participant)	Cash Outlay	% of Total Investment	Annual Return On Investment	Ownership Stake
Developer Equity	$ 3,000,000	2.5%	0.00%	50%
Land Financing	$ 9,000,000	7.5%	6.50%	0%
Equity Investor	$ 27,000,000	22.5%	0.00%	50%
Construction Loan Financing	$ 81,000,000	66.5%	6.50%	0%
	$120,000,000	100.0%		

~ Permanent Financing and Equity Investment ROI

Once the project has a stabilized income stream from rent paying tenants, the land loan and the construction loan will be rolled into permanent financing. Because the outlet will have a stabilized income stream at that time of property underwritting, the value of the property should be higher than strictly construction costs. Subsequently, the developer and equity investors can (1) place a new loan on the project at an estimated 6.5% rate on a 25-year term with a balloon payment due in year ten, and (2) recapture proceeds provided they maintain a 75% loan to value – which will be split 50% / 50%.

~ Present Value Analysis

As described in the appendix, the total project costs including all hard and soft costs is $121,091,751. The question remains, what is the return in investment? While calculating the value on a stabilized cash-on-cash return, the project is returning a 10.26% return based on the first years cash-flow ($12,421,506 NOI/ $121,091,751 Costs). To better understand this asset, the Internal Rate of Return (IRR) & a Net Present Value (NPV) will be calculated. For both of these analysis', the project will be capitalized in the 5th year.

IRR: To determine an un-leveraged IRR on the asset, a terminal event (sale of the asset) must be calculated. For this, a capitalization rate must be used. While strip-center retail properties are commonly sold, Class "A" shopping centers are not. (The reason for this is likely because the large shopping mall REIT's own these Class "A" shopping center properties, and their strategy is to hold "good" cash-producing assets – not to

sell.) The Grand Prairie outlet project is more likely to fall into this Class "A" shopping mall category than the strip-center retail category, and therefore a similar project type is used for determining the capitalization rate, not just typical retail properties. The most applicable and recent transaction for a Class "A" outlet project is the sale of Las Americas Premium Outlets by Stoltz to Simon Property Group. This transaction happened at a 5.3% capitalization rate in August 2007. While this was at the end of the real estate boom, it clearly shows the strength in Class "A" outlet centers. Although this transaction was 1+ years ago, it is similar to what the Grand Prairie outlet is proposed to be, and therefore a more conservative 7% capitalization rate will be used herein.

So, what is the present value for this project? In the below analysis, using an assumed 7% capitalization rate and an assumed 10% cost of capital, the present value of the cash flows and sale is $175,564,778. Given that the total project costs are $121,091,751, and a cost of sale of $5,266,943 (3% of present value), the net present value for this project is $49,206,084.

Taking this one step further, the Internal Rate of Return for the project can be calculated. Assuming the same present value used above of $175,564,778 and project costs of $121,091,751, the project IRR is 18.41% after 5-years (reverting the 6th year).

Software : ARGUS Ver. 13.2 (Build: 13000-H) GP Outlet Project
File : GP Project
Property Type : Retail
Portfolio :

Prospective Property Resale

For the Years Ending	Year 1 Dec-2011	Year 2 Dec-2012	Year 3 Dec-2013	Year 4 Dec-2014	Year 5 Dec-2015	Year 6 Dec-2016
Resale Amount						
Gross Proceeds from Sale	$169,892,186	$177,450,086	$185,279,686	$193,390,614	$192,343,071	$210,496,600
Net Proceeds From Sale	$169,892,186	$177,450,086	$185,279,686	$193,390,614	$192,343,071	$210,496,600
Unleveraged Annual IRR	50.12%	30.23%	24.21%	21.30%	18.62%	18.41%

Software : ARGUS Ver. 13.2 (Build: 13000-H)
File : GP Project
Property Type : Retail
Portfolio :

GP Outlet Project

Prospective Present Value
Cash Flow Before Debt Service plus Property Resale
Discounted Annually (Endpoint on Cash Flow & Resale) over a 6-Year Period

Analysis Period	For the Year Ending	Annual Cash Flow	P.V. of Cash Flow @ 10.00%
Year 1	Dec-2011	$11,892,453	$10,811,321
Year 2	Dec-2012	12,421,506	10,265,707
Year 3	Dec-2013	12,969,578	9,744,236
Year 4	Dec-2014	13,537,343	9,246,188
Year 5	Dec-2015	13,464,015	8,360,094
Year 6	Dec-2016	14,734,762	8,317,389
Total Cash Flow		79,019,657	56,744,935
Property Resale @ 7% Cap Rate		210,496,600	118,819,843
Total Property Present Value			$175,564,778
Rounded to Thousands			$175,565,000
Per SqFt			361.99
Percentage Value Distribution			
Assured Income			32.32%
Prospective Income			
Prospective Property Resale			67.68%
			100.00%

NOTE: PLEASE SEE APPENDIX FOR COMPLETE ARGUS RUN.

MARKETING

Marketing is a key component to the operation of a shopping center. Easily said, the primary goal of marketing is to drive shopping, and this is measured in sales per square foot. If a marketing program is working, it will lead to greater sales per square foot, then to successful tenants, leading to higher rents for the landlord, then ultimately to the goal of higher project value. So in the end, marketing's focus is driving sales, and this section focuses on how that is accomplished.

The very first role of marketing in a ground up retail shopping center relates helping with the leasing of the shopping center to the prospective tenants. This involves putting together packages that are used in selling prospective tenants on the shopping center location. This is critical, as these packages are the ammunition the leasing agents use. But the marketing discussed herein focuses on a much larger and long term goal: the marketing of the shopping center to the potential shoppers in the greater trade area. This involves marketing plans, media plans, sales and event promotions.[32]

Although the timing of a long-term media program truly gets rolling closer to the opening date of the center, unfortunately, performing marketing prior to the opening of the shopping center is not effective because people tend to act on current marketing programs, not ones that they have heard in the past. With this said, the first big marketing push occurs in the months before -- particularly in the weeks and days before -- the Grand Opening of the shopping center. The goal of the Grand Opening marketing program will be to get as many people to the shopping center on the first day of business, and to create a "buzz" around the community. After the Grand Opening Event, a more stabilized marking program will be implemented.

The marketing program for the Grand Opening, as well as for the long term marketing program, involves: (1) Understanding the shopper, (2) Getting people to the shopping center from off-site marketing, and (3) Driving sales at particular stores.

Understanding the shopper is often effectively accomplished through the use of 'intercept studies.' An intercept study is intended to profile the shopping population that visits the center. These shopper profiles often include such things as: age, sex and income of the shopper; frequency of visits of a shopper; what advertising affected their awareness of the center; reason for visiting; length of stay; stores they visit; and success of the

visit. With these studies, the marketing program can then be focused to most effectively impress upon potential shoppers, and (hopefully) result in driving sales.[33]

The most critical part of advertising is getting potential shoppers to the center. By taking the information provided through intercept studies, a marketing program will use media outlets to get "impressions" in front of potential shoppers. These media outlets include print, radio, television, and internet/email. The composition and focus of the marketing dollars spent on advertising will depend on the success of each program. It is assumed that the off-site media marketing programs will continually be altered as certain programs prove to be more effective at driving sales.

The final phase of marketing is on-site marketing programs. At this point, the important step of getting shoppers to the shopping center has already been accomplished. Now, the on-site marketing program will attempt to keep the shoppers on-site longer, inform shoppers about particular stores and sales events, and (hopefully) make the shoppers spend more money. These are implemented through such things as: on-site directional and billboard signage, promotional coupon books and messaging via the mall's sound system. Like the media advertising, the level at which each of these proves effective at driving sales will result in the level at which each program is to be implemented.

CONSTRUCTION

The construction phase will start long before a proverbial shovel is put in the ground. As approximately 80% of the project is related to the cost of construction, getting a handle on the cost of the project is vitally important to maintain the budget. In order to accomplish this, a general contractor will be hired for a fee to provide pre-construction services.

~ Pre-Construction Services

Pre-construction services, while costing tens of thousands of dollars, will help maintain the project budget, and it will even suggest cost effective (also known as value engineering) to lower the overall construction cost. This process will entail getting the contractor involved very early in the design phase, and typically the earlier the better. If this service is provided at the conceptual design phase, the contractor can suggest the most cost effective methods for building construction based on both the local of the building techniques and the ever changing cost of materials.

Pre-construction services will continue to be involved throughout the design phase. As the construction documents are completed, the general contractor will often start to get preliminary bids and will produce a cost estimate for the project, enabling the developer to know where the project construction budget stands. It is suggested for the Outlet project that this bidding process occurs at the 30%, 60%, 90%, and 100% construction documents are generated by the project designers. Again, this service will cost money, but the cost savings and ability to find the big budget busts throughout the project will eliminate project cost overruns.

~ The General Contractor

It was mentioned above that a general contractor ("GC") will be hired for the outlet project. A general contractor is defined as "a party that performs or supervises the construction or development of a property pursuant to the terms of a primary contract with the property owner. The general contractor may use its own employees to perform the work and/or the services of other contractors called subcontractors."[34]

The type of contract the developer has with the GC is a big decision. In the case of the outlet project, the GC will be hired through a "stipulated-sum contract", which is similar to a lump sum contract. With a stipulated sum contract, the GC will take the construction documents prepared by the developer's designers, and typically gets 3 to 5 bids on all of the different trades / sub-contractors – construction, steel, site-work, EIFS,

etc. Once the bids for the project are assembled, the developer can then review the 3 to 5 bids from each subcontractor and pick which one to go with. Once all final subcontractors are picked by the developer, the GC totals the project costs and adds their general conditions or fee. Typically the fee is 3% or more of the total project cost. The total of all bid prices plus the GC fee is the total construction budget.

Using a stipulated sum contract proves to be successful when the project's construction documents are very well done. If the documents are not well done, the developer will typically change things after the contract is signed, resulting in a change of scope under the GC's contract. These "change orders" give the GC the ability to go back to the developer and request additional moneys to pay for change in scope. Unfortunately, the change order process often proves to be costly to the developer. In the case of the outlet, the construction documents are anticipated to be very complete, and therefore the change orders will be minimized, resulting in minimal changes to the project construction budget.

~ Developer's Construction Management

While the hiring of a GC was discussed above, the developer will also want to hire construction managers to oversee the project. The developer's construction managers will be based at the job site, and will be responsible for seeing that the GC maintains their schedule and quality of craftsmanship. If the GC is not performing to the level expected by the developer, the construction manager will take note early on and minimize project delays and errors.

Beyond the construction manager, the developer will also have a tenant coordinator ("TC") for the outlet project. The TC will be responsible for coordinating that the GC is delivering the tenants space in the fashion that the developer has leased it to the tenants. For instance, the developer often provides the tenant with a warm white box, or a tenant space that has HVAC, electric, and dry-walled demising walls. (This is different from a cool dark shell that would have no HVAC, no electric, and no demising walls. The TC will also be responsible that the tenant occupies the space on time, and that their signage and store build out are consistent with what the tenant's developer-approved store plans call for.

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APPENDIX

Project Costs / Construction Proforma

Project Size (GBA) 510,000 SF
Project Size (GLA) 485,000 SF
Site Size 64.0 AC

HARD COSTS						Oct-09		Nov-09		Dec-09		Jan-10		Feb-10		Mar-10		Apr-10		May-10		Jun-10		Jul-10		Aug-10		Sep-10		Oct-10		Nov-10		Dec-10	TOTAL COST
Total Acquisition Costs																																	
Land	64.0 AC	$3.00/sf	$8,363,520	TRUE	100%	$8,363,520																											$8,363,520
Brokers Commission		3.00%	$250,906	TRUE	100%	$250,906																											$250,906
Rollback Taxes			$500,000	TRUE	100%	$500,000																											$500,000
Closing Costs		2%	$167,270	TRUE	100%	$167,270																											$167,270
Purchase of Billboard			$250,000	TRUE	100%	$250,000																											$250,000
TOTAL ACQUISITION COSTS			**$9,531,696**	TRUE	100%	$9,531,696																											**$9,531,696**
																																	$0
Off Site Costs																																	$0
Grading & Detention Ponds			$825,000	TRUE	40%	$330,000	40%	$330,000	20%	$165,000																							$825,000
Sara Jane Parkway (Paving Costs)			$2,250,000	TRUE	20%	$450,000	30%	$675,000	30%	$675,000	20%	$450,000																					$2,250,000
Fire Loop System (in roadway)			$130,000	TRUE	25%	$32,500	75%	$97,500																									$130,000
Storm Sewer Items			$736,009	TRUE	25%	$184,002.25	75%	$552,006.75																									$736,009
Contractor O&P & Other Fees & Costs (30%)			$1,182,303	TRUE	25%	$298,950.68	42%	$496,352.03	21%	$252,000.00	11%	$135,000.00																					$1,182,303
TOTAL OFF SITE COSTS			**$5,123,312**	TRUE	**25%**	**$1,295,453**	**42%**	**$2,150,859**	**21%**	**$1,092,000**	**11%**	**585000**																					**$5,123,312**
On Site Costs																																	
Building Pad (Over Excavating & Fill)			$3,500,000	TRUE	40%	$1,400,000	60%	$2,100,000																									$3,500,000
Mass Grading			$1,500,000	TRUE	40%	$600,000	40%	$600,000	20%	$300,000																							$1,500,000
On Site Sewer & Water			$1,000,000	TRUE			30%	$300,000	30%	$300,000	20%	$200,000	20%	$200,000																			$1,000,000
On Site Paving			$3,750,000	TRUE																							25%	$937,500	25%	$937,500	25%	$937,500	25%	$937,500	$3,750,000
Wetland Mitigation Costs			$400,000	TRUE	100%	$400,000																											$400,000
Area Lighting			$500,000	TRUE																									20%	$100,000	40%	$200,000	40%	$200,000	$500,000
Landscaping			$1,000,000	TRUE																							25%	$250,000	25%	$250,000	25%	$250,000	25%	$250,000	$1,000,000
Contractor O&P & Other Fees & Costs (30%)			$3,495,000	TRUE	21%	$720,000	26%	$900,000	5%	$180,000	2%	$60,000	2%	$60,000													10%	$356,250	11%	$386,250	12%	$416,250	12%	$416,250	$3,495,000
Signage (Pylon & Parking Lot)			$400,000	TRUE																									50%	$200,000				$400,000
Amenities (FF&E)			$500,000	TRUE																											30%	$150,000	70%	$350,000	$500,000
TOTAL ON SITE COSTS			**$16,045,000**	TRUE		**$3,120,000**		**$3,900,000**		**$780,000**		**$260,000**		**$260,000**														**$1,543,750**		**$1,873,750**		**$2,153,750**		**$2,153,750**	**$16,045,000**
																																	$0
Building Construction Costs	**Square Feet**	**$ per sf**																															
Building Shell	510,000 SF	$85.00/sf	$43,350,000	TRUE					10%	$4,335,000	10%	$4,335,000	10%	$4,335,000	10%	$4,335,000	10%	$4,335,000	10%	$4,335,000	10%	$4,335,000	10%	$4,335,000	10%	$4,335,000	10%	$4,335,000							$43,350,000
"Vanilla Box"	485,000 SF	$20.00/sf	$9,700,000	TRUE											5%	$485,000	10%	$970,000	15%	$1,455,000	15%	$1,455,000	15%	$1,455,000	15%	$1,455,000	15%	$1,455,000	10%	$970,000						$9,700,000
TOTAL BLDG CONSTR COSTS			**$53,050,000**	TRUE		**0**				**$4,335,000**		**$4,335,000**		**$4,335,000**		**$4,820,000**		**$5,305,000**		**$5,790,000**		**$5,790,000**		**$5,790,000**		**$5,790,000**		**$5,790,000**		**$970,000**					**$53,050,000**
																																	$0
Tenant Allowances ("TA")	**Square Feet**	**TA / SF**																															$0
In-Line (80% of GLA)	388,000 SF	$37.50	$14,550,000	TRUE																									20%	$2,910,000	40%	$5,820,000	40%	$5,820,000	$14,550,000
Major Anchors (10% of GLA)	48,500 SF	$37.50	$1,818,750	TRUE																									20%	$363,750	40%	$727,500	40%	$727,500	$1,818,750
Minor Anchors (10% of GLA)	48,500 SF	$37.50	$1,818,750	TRUE																									20%	$363,750	40%	$727,500	40%	$727,500	$1,818,750
TOTAL "TA" COSTS	485,000 SF	$37.50	**$18,187,500**	TRUE																										$3,637,500		$7,275,000		$7,275,000	$18,187,500
TOTAL HARD COSTS:			**$101,937,508**	TRUE		**$13,947,149**		**$6,050,859**		**$6,207,000**		**$5,180,000**		**$4,595,000**		**$4,820,000**		**$5,305,000**		**$5,790,000**		**$5,790,000**		**$5,790,000**		**$5,790,000**		**$7,333,750**		**$6,481,250**		**$9,428,750**		**$9,428,750**	**$101,937,508**

SOFT COSTS																																	
Architecture & Engineering Costs																																	
Architect/Structural/ MEP			$2,500,000	TRUE	86%	$2,150,000	1%	$25,000	1%	$25,000	1%	$25,000	1%	$25,000	1%	$25,000	1%	$25,000	1%	$25,000	1%	$25,000	1%	$25,000	1%	$25,000	1%	$25,000	1%	$25,000	1%	$25,000	1%	$25,000	$2,500,000
Civil & Environmental Engineer			$1,100,000	TRUE	86%	$946,000	1%	$11,000	1%	$11,000	1%	$11,000	1%	$11,000	1%	$11,000	1%	$11,000	1%	$11,000	1%	$11,000	1%	$11,000	1%	$11,000	1%	$11,000	1%	$11,000	1%	$11,000	1%	$11,000	$1,100,000
Misc Consutlants			$150,000	TRUE	86%	$129,000	1%	$1,500	1%	$1,500	1%	$1,500	1%	$1,500	1%	$1,500	1%	$1,500	1%	$1,500	1%	$1,500	1%	$1,500	1%	$1,500	1%	$1,500	1%	$1,500	1%	$1,500	1%	$1,500	$150,000
TOTAL A&E COSTS			**$3,750,000**	TRUE		**$3,225,000**		**$37,500**		**$37,500**		**$37,500**		**$37,500**		**$37,500**		**$37,500**		**$37,500**		**$37,500**		**$37,500**		**$37,500**		**$37,500**		**$37,500**		**$37,500**		**$37,500**	**$3,750,000**
Accounting & Finance Costs																																	
Financing Closing Costs	2% of hard costs		$2,400,000	TRUE	100%	$2,400,000																											$2,400,000
3rd Party Expenses			$100,000	TRUE	100%	$100,000																											$100,000
Broker	$1.00/sf		$485,000	TRUE	100%	$485,000																											$485,000
TOTAL A&F COSTS			**$2,985,000**	TRUE		**$2,985,000**																											**$2,985,000**
General Conditions, Permits & Fees																																	
Site Permits			$500,000	TRUE	100%	$500,000	0%																											$500,000
Bldg Permits & Other Fees			$300,000	TRUE	100%	$300,000																											$300,000
Legal Entitlements, Contracts & Agreements			$500,000	TRUE	100%	$500,000																											$500,000
Material Handling & Tenant Trash			$250,000	TRUE	100%	$250,000																											$250,000
On-Site Office / Trailers			$200,000	TRUE	100%	$200,000																											$200,000
Travel			$400,000	TRUE	30%	$120,000	5%	$20,000	5%	$20,000	5%	$20,000	5%	$20,000	5%	$20,000	5%	$20,000	5%	$20,000	5%	$20,000	5%	$20,000	5%	$20,000	5%	$20,000	5%	$20,000	5%	$20,000	5%	$20,000	$400,000
Misc			$400,000	TRUE	30%	$120,000	5%	$20,000	5%	$20,000	5%	$20,000	5%	$20,000	5%	$20,000	5%	$20,000	5%	$20,000	5%	$20,000	5%	$20,000	5%	$20,000	5%	$20,000	5%	$20,000	5%	$20,000	5%	$20,000	$400,000
TOTAL GENERAL CONDITIONS			**$2,550,000**	TRUE		**$1,990,000**		**$40,000**		**$40,000**		**$40,000**		**$40,000**		**$40,000**		**$40,000**		**$40,000**		**$40,000**		**$40,000**		**$40,000**		**$40,000**		**$40,000**		**$40,000**		**$40,000**	**$2,550,000**
Other Project Costs																																	
Marketing			$500,000	TRUE	4%	$20,000	4%	$20,000	4%	$20,000	4%	$20,000	4%	$20,000	5%	$25,000	5%	$25,000	5%	$25,000	5%	$25,000	5%	$25,000	5%	$25,000	5%	$25,000	5%	$25,000	20%	$100,000	20%	$100,000	$500,000
Leasing Costs	$4.00/sf		$1,940,000	TRUE	3%	$58,200	3%	$58,200	3%	$58,200	3%	$58,200	3%	$58,200	3%	$58,200	4%	$77,600	4%	$77,600	4%	$77,600	4%	$77,600	4%	$77,600	4%	$77,600	4%	$77,600	4%	$77,600	50%	$970,000	$1,940,000
Direct Development Fee			$0	TRUE																													$0
Project Contingency		5%	$4,620,291																														
Other			$0	TRUE																													$0
TOTAL OTHER PROJECT COSTS			**$7,060,291**	FALSE		**$78,200**		**$78,200**		**$78,200**		**$78,200**		**$78,200**		**$83,200**		**$102,600**		**$102,600**		**$102,600**		**$102,600**		**$102,600**		**$102,600**		**$102,600**		**$177,600**		**$1,070,000**	**$2,440,000**
TOTAL SOFT COSTS:			**$16,345,291**			**$8,278,200**		**$155,700**		**$155,700**		**$155,700**		**$155,700**		**$160,700**		**$180,100**		**$180,100**		**$180,100**		**$180,100**		**$180,100**		**$180,100**		**$180,100**		**$255,100**		**$1,147,500**	**$11,725,000**
																																	$0
TOTAL HARD & SOFT COSTS:			**$118,282,798**			**$22,225,349**		**$6,206,559**		**$6,362,700**		**$5,335,700**		**$4,750,700**		**$4,980,700**		**$5,485,100**		**$5,970,100**		**$5,970,100**		**$5,970,100**		**$5,970,100**		**$7,513,850**		**$6,661,350**		**$9,683,850**		**$10,576,250**	**$113,662,508**

TOTAL HARD & SOFT COSTS, PLUS INTESTEST CARRY																																	
Total Hard & Soft Costs			$118,282,798			$22,225,349		$6,206,559		$6,362,700		$5,335,700		$4,750,700		$4,980,700		$5,485,100		$5,970,100		$5,970,100		$5,970,100		$5,970,100		$7,513,850		$6,661,350		$9,683,850		$10,576,250	
Equity Participation		25%	$29,570,700			$22,225,349		$6,206,559		$1,138,792																							
Total Financed Amount			$88,712,099			$0		$0		$5,223,908		$5,335,700		$4,750,700		$4,980,700		$5,485,100		$5,970,100		$5,970,100		$5,970,100		$5,970,100		$7,513,850		$6,661,350		$9,683,850		$10,576,250	
	Annual %	**Monthly %**																															
Current Month Interest Carry	6.5%	0.54%				$0		$0		$28,296		$28,902		$25,733		$26,979		$29,711		$32,338		$32,338		$32,338		$32,338		$40,700		$36,082		$52,454		$57,288	**$455,497**
Previous Month(s) Interst Carry						$0		$0		$0		$28,296		$57,198		$82,931		$109,910		$139,621		$171,959		$204,297		$236,635		$268,973		$309,673		$345,755		$398,209	**$2,353,455**
TOTAL INTEREST CARRY			**$2,808,952**			**$0**		**$0**		**$28,296**		**$57,198**		**$82,931**		**$109,910**		**$139,621**		**$171,959**		**$204,297**		**$236,635**		**$268,973**		**$309,673**		**$345,755**		**$398,209**		**$455,497**	**$2,808,952**
TOTAL HARD & SOFT COSTS, PLUS INTERSEST CARRY:			**$121,091,751**			$22,225,349		$6,206,559		$6,390,996		$5,392,898		$4,833,631		$5,090,610		$5,624,721		$6,142,059		$6,174,397		$6,206,735		$6,239,073		$7,823,523		$7,007,105		$10,082,059		$11,031,747	

10-Year Operating Proforma

Grand Prairie Outlet Center

Project GLA:	485,000sf
Annual Rent Escalations:	3.55%

For the Years Ending				2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
				yr 1	*yr 2*	*yr 3*	*yr 4*	*yr 5*	*yr 6*	*yr 7*	*yr 8*	*yr 9*	*yr 10*	*yr 11*
POTENTIAL GROSS REVENUE														
Base Rental Revenue														
	Rent	*Units*												
(1) Major Anchor Tenants (12%)	$8.00/sf	58,200 sf		$465,600	$482,129	$499,244	$516,968	$535,320	$554,324	$574,002	$594,379	$615,480	$637,329	$659,955
(2) Minor Anchor Tenants (15%)	$20.00/sf	72,750 sf		$1,455,000	$1,506,653	$1,560,139	$1,615,524	$1,672,875	$1,732,262	$1,793,757	$1,857,435	$1,923,374	$1,991,654	$2,062,358
(3) In-Line Tenants (73%)	$30.00/sf	354,050 sf		$10,621,500	$10,998,563	$11,389,012	$11,793,322	$12,211,985	$12,645,511	$13,094,426	$13,559,278	$14,040,633	$14,539,075	$15,055,212
(4) Speciality / Kiosk	$18,000/year	20 Kiosks		$360,000	$372,780	$386,014	$399,717	$413,907	$428,601	$443,816	$459,572	$475,886	$492,780	$510,274
Scheduled Base Rental Revenue				$12,902,100	$13,360,125	$13,834,409	$14,325,530	$14,834,087	$15,360,697	$15,906,002	$16,470,665	$17,055,373	$17,660,839	$18,287,799
Expense Reimbursement Revenu	(Per below)	Set Escalations												
Major Tenants	$6.00/sf	3.55%	58,200 sf	$349,200	$361,597	$374,433	$387,726	$401,490	$415,743	$430,502	$445,784	$461,610	$477,997	$494,966
In-Line & Minor-Anchor Tenants	$14.12/sf	3.55%	426,800 sf	$6,026,416	$6,240,354	$6,461,886	$6,691,283	$6,928,824	$7,174,797	$7,429,502	$7,693,250	$7,966,360	$8,249,166	$8,542,011
Total Reimbursement Revenue				$6,375,616	$6,601,950	$6,836,320	$7,079,009	$7,330,314	$7,590,540	$7,860,004	$8,139,034	$8,427,970	$8,727,163	$9,036,977
TOTAL POTENTIAL GROSS REVENUE				$19,277,716	$19,962,075	$20,670,729	$21,404,539	$22,164,401	$22,951,237	$23,766,006	$24,609,699	$25,483,343	$26,388,002	$27,324,776
Turnover & Vacancy														
Turnover				$0	$0	$0	$0	($76,325)	$0	($163,680)	$0	$0	($636,085)	$0
Vacancy	3% of base rent			($387,063)	($400,804)	($415,032)	($429,766)	($445,023)	($460,821)	($477,180)	($494,120)	($511,661)	($529,825)	($548,634)
			Sub-Total:	($387,063)	($400,804)	($415,032)	($429,766)	($521,348)	($460,821)	($640,860)	($494,120)	($511,661)	($1,165,910)	($548,634)
EFFECTIVE GROSS REVENUE				**$18,890,653**	**$19,561,271**	**$20,255,696**	**$20,974,774**	**$21,643,053**	**$22,490,416**	**$23,125,145**	**$24,115,579**	**$24,971,682**	**$25,222,092**	**$26,776,142**
			Projected Annual Change		$1,658,700									
OPERATING EXPENSES														
CAM	$8.00/sf	485,000sf	3.00%	$3,880,000	$3,996,400	$4,116,292	$4,239,781	$4,366,974	$4,497,983	$4,632,923	$4,771,911	$4,915,068	$5,062,520	$5,214,396
Taxes	$3.42/sf	485,000sf	0.00%	$1,658,700	$1,658,700	$1,658,700	$1,658,700	$1,658,700	$1,658,700	$1,658,700	$1,658,700	$1,658,700	$1,658,700	$1,658,700
Insurance	$0.70/sf	485,000sf	5.00%	$339,500	$356,475	$374,299	$393,014	$412,664	$433,298	$454,962	$477,711	$501,596	$526,676	$553,010
Marketing	$2.00/sf	485,000sf	0.00%	$970,000	$970,000	$970,000	$970,000	$970,000	$970,000	$970,000	$970,000	$970,000	$970,000	$970,000
TOTAL OPERATING EXPENSES	$14.12/sf	485,000sf		$6,848,200	$6,981,575	$7,119,291	$7,261,494	$7,408,339	$7,559,981	$7,716,585	$7,878,321	$8,045,364	$8,217,896	$8,396,105
NET OPERATING INCOME				$12,042,453	$12,579,696	$13,136,406	$13,713,279	$14,234,715	$14,930,435	$15,408,560	$16,237,258	$16,926,318	$17,004,196	$18,380,037
LEASING & CAPITAL COSTS	Base Figure	Excalation		$37.50/sf	$38.83/sf	$40.21/sf	$41.64/sf	$43.12/sf	$44.65/sf	$46.23/sf	$47.87/sf	$49.57/sf	$51.33/sf	$53.15/sf
Tenant Improvements (New Tenant	$37.50/sf	3.55%		$0	$0	$0	$0	($381,625)	$0	($818,402)	$0	$0	($3,180,423)	$0
				$20.00/sf	$20.71/sf	$21.45/sf	$22.21/sf	$22.99/sf	$23.81/sf	$24.66/sf	$25.53/sf	$26.44/sf	$27.38/sf	$28.35/sf
Tenant Improvements (Renewal)	$20.00/sf	3.55%		$0	$0	$0	$0	($610,599)	$0	($1,309,443)	$0	$0	($5,088,676)	$0
Leasing Commissions	$4.00/sf	3.55%		$0	$0	$0	$0	($203,533)	$0	($436,481)	$0	$0	($1,696,225)	$0
Annual Roof Repairs	$50,000	5.46%		($50,000)	($52,730.00)	($55,609.06)	($58,645.31)	($61,847.35)	($65,224.21)	($68,785.45)	($72,541.14)	($76,501.89)	($80,678.89)	($85,083.96)
Annual Parking-lot Maintance	$100,000	5.46%		($100,000)	($105,460.00)	($111,218.12)	($117,290.63)	($123,694.69)	($130,448.42)	($137,570.91)	($145,082.28)	($153,003.77)	($161,357.78)	($170,167.91)
TOTAL LEASING & CAPITAL COSTS				($150,000)	($158,190)	($166,827)	($175,936)	($770,700)	($195,673)	($1,461,239)	($217,623)	($229,506)	($5,118,685)	($255,252)
CASH FLOW BEFORE DEBT SERVICE & TAXES				**$11,892,453**	**$12,421,506**	**$12,969,578**	**$13,537,343**	**$13,464,015**	**$14,734,762**	**$13,947,321**	**$16,019,634**	**$16,696,812**	**$11,885,512**	**$18,124,785**

Schedule Of Prospective Cash Flow
In Inflated Dollars for the Fiscal Year Beginning 1/1/2011

For the Years Ending	Year 1 Dec-2011	Year 2 Dec-2012	Year 3 Dec-2013	Year 4 Dec-2014	Year 5 Dec-2015	Year 6 Dec-2016
Potential Gross Revenue						
Base Rental Revenue	$11,892,453	$12,421,506	$12,969,578	$13,537,343	$13,464,015	$14,734,762
Scheduled Base Rental Revenue	11,892,453	12,421,506	12,969,578	13,537,343	13,464,015	14,734,762
Total Potential Gross Revenue	11,892,453	12,421,506	12,969,578	13,537,343	13,464,015	14,734,762
Effective Gross Revenue	11,892,453	12,421,506	12,969,578	13,537,343	13,464,015	14,734,762
Net Operating Income	11,892,453	12,421,506	12,969,578	13,537,343	13,464,015	14,734,762
Cash Flow Before Debt Service & Taxes	$11,892,453	$12,421,506	$12,969,578	$13,537,343	$13,464,015	$14,734,762

Prospective Property Resale

For the Years Ending	Year 1 Dec-2011	Year 2 Dec-2012	Year 3 Dec-2013	Year 4 Dec-2014	Year 5 Dec-2015	Year 6 Dec-2016
Resale Amount						
Gross Proceeds from Sale	$169,892,186	$177,450,086	$185,279,686	$193,390,614	$192,343,071	$210,496,600
Net Proceeds From Sale	$169,892,186	$177,450,086	$185,279,686	$193,390,614	$192,343,071	$210,496,600
Unleveraged Annual IRR	50.12%	30.23%	24.21%	21.30%	18.62%	18.41%

Prospective Present Value
Cash Flow Before Debt Service plus Property Resale
Discounted Annually (Endpoint on Cash Flow & Resale) over a 6-Year Period

Analysis Period	For the Year Ending	Annual Cash Flow	P.V. of Cash Flow @ 10.00%
Year 1	Dec-2011	$11,892,453	$10,811,321
Year 2	Dec-2012	12,421,506	10,265,707
Year 3	Dec-2013	12,969,578	9,744,236
Year 4	Dec-2014	13,537,343	9,246,188
Year 5	Dec-2015	13,464,015	8,360,094
Year 6	Dec-2016	14,734,762	8,317,389
Total Cash Flow		79,019,657	56,744,935
Property Resale @ 7% Cap Rate		210,496,600	118,819,843
Total Property Present Value			$175,564,778
Rounded to Thousands			$175,565,000
Per SqFt			361.99

Percentage Value Distribution

Assured Income	32.32%
Prospective Income	
Prospective Property Resale	67.68%
	100.00%

Prospective Present Value
Cash Flow Before Debt Service plus Property Resale
Discounted Annually (Endpoint on Cash Flow & Resale) over a 6-Year Period

For the Discount Rates	Discounted Cash Flow Before Debt	Discounted Resale @ 7% Cap Rate Before Debt	Total Discounted Value	Total Value per SqFt	Cash Flow Contribution Before Debt	Resale Contribution Before Debt
10.00%	$56,744,935	$118,819,843	$175,564,778	$361.99	32.32%	67.68%

Increasing Term Present Value
Cash Flow Before Debt Service plus Property Resale
Discounted Annually (Endpoint on Cash Flow & Resale) over a 6-Year Period

Cumulative Discounted Cash Flow Before Debt, Through The End Of Each Year

For the Years Ending	Year 1 Dec-2011	Year 2 Dec-2012	Year 3 Dec-2013	Year 4 Dec-2014	Year 5 Dec-2015	Year 6 Dec-2016
For The Discount Rate: 10.00%	$10,811,321	$21,077,028	$30,821,264	$40,067,452	$48,427,546	$56,744,935

Discounted Proceeds From Property Resale At The End Of Each Year Assuming 7% Cap Rate

For the Years Ending	Year 1 Dec-2011	Year 2 Dec-2012	Year 3 Dec-2013	Year 4 Dec-2014	Year 5 Dec-2015	Year 6 Dec-2016
For The Discount Rate: 10.00%	$154,447,442	$146,652,964	$139,203,370	$132,088,392	$119,429,914	$118,819,843

Total Unleveraged Discounted Value If Property Held Through The End Of Each Year

For the Years Ending	Year 1 Dec-2011	Year 2 Dec-2012	Year 3 Dec-2013	Year 4 Dec-2014	Year 5 Dec-2015	Year 6 Dec-2016
For The Discount Rate: 10.00%	$165,258,763	$167,729,992	$170,024,634	$172,155,844	$167,857,460	$175,564,778

Contribution Of Discounted Proceeds From Resale

For the Years Ending	Year 1 Dec-2011	Year 2 Dec-2012	Year 3 Dec-2013	Year 4 Dec-2014	Year 5 Dec-2015	Year 6 Dec-2016
For The Discount Rate: 10.00%	93.46%	87.43%	81.87%	76.73%	71.15%	67.68%

The rates shown in sections containing both cash flow and resale are the cash flow rates.

Property Summary Report

Timing & Inflation

Reporting Period:	January 1, 2011 to December 31, 2016; 6 years
Inflation Month:	Analysis Start
General Inflation Rate:	0.00%

Property Size & Occupancy

Property Size:	485,000 Square Feet
Alternate Size:	1 Square Foot
Number of rent roll tenants:	1
Total Occupied Area:	485,000 Square Feet, 100.00%, during first month of analysis

Property Purchase & Resale

Purchase Price:	$121,091,751
Resale Method:	Capitalize Net Operating Income
Cap Rate:	7.00%
Cap Year:	Year 6
Commission/Closing Cost:	$0
Net Cash Flow from Sale:	$210,496,600

Present Value Discounting

Discount Method:	Annually (Endpoint on Cash Flow & Resale)
Unleveraged Discount Rate:	10.00%
Unleveraged Present Value:	$175,564,778 at 10.00%
Unleveraged Annual IRR:	18.41%